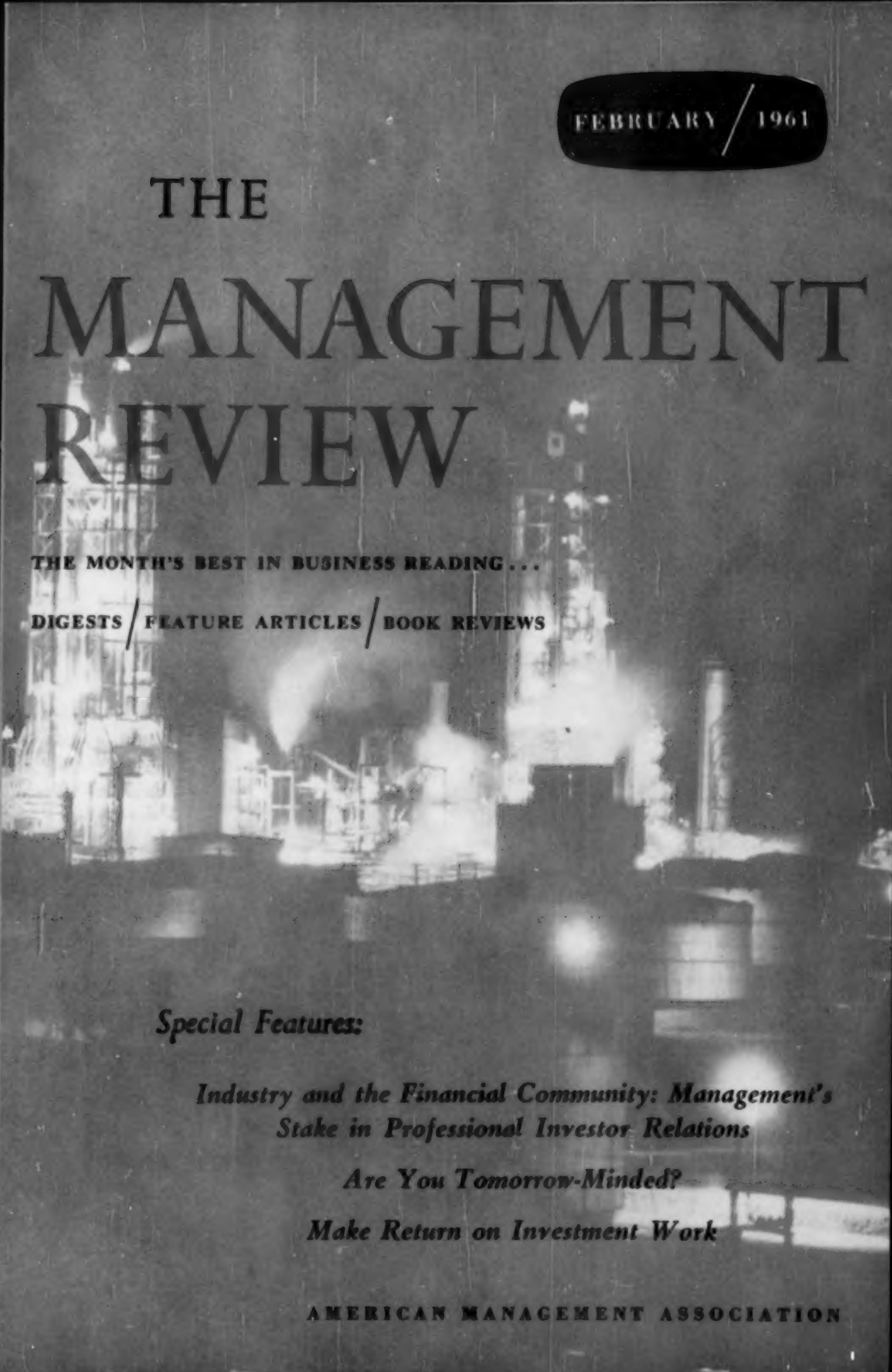

FEBRUARY / 1961

THE MANAGEMENT REVIEW

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DIGESTS / FEATURE ARTICLES / BOOK REVIEWS

Special Features:

Industry and the Financial Community: Management's Stake in Professional Investor Relations

Are You Tomorrow-Minded?

Make Return on Investment Work

AMERICAN MANAGEMENT ASSOCIATION

in this issue . . .

- **Critic's Choice.** In one way or another, every company will be in the market for new funds in the next decade, and the ease with which they obtain financing will depend to a great extent on the opinions of the financial community—large institutional stock buyers, brokers, and security analysts. In this month's opening article, O. GLENN SAXON discusses professional investor relations and points out the communications job that faces every company that realizes the importance of competing for "owners" as well as customers in the coming years.

- **What's Ahead?** Without benefit of tea leaves, tarot cards, or a crystal ball, executives (like other people) have to gauge the future by their own devices—but the difference is that it's a vitally important part of their jobs. No one can tell a manager how to do this, but AUREN URIS' article (page 13) suggests the kind of questions an executive can ask himself and practical helps he can use to spot trends before they shape up—and perhaps to create some himself.

- **The Trend that Got Away** . . . A postscript to this article, in verse, by RICHARD ARMOUR (page 18).

- **Return on Investment.** Not only does return on investment reflect a company's over-all performance, but, when applied to individual operating units and products, it can be an invaluable tool for profit-center management. On page 20, EDWARD G. KOCH tells how a number of prominent companies are applying it as a means of internal profit and expense control.

—THE EDITORS

FEBRUARY 1961
Volume L, No. 2

THE MANAGEMENT REVIEW

FEATURES

BUSINESS DIGESTS OF THE MONTH

Trends and perspectives

Management policy and practice

Operating guides for executives

What others are doing

DEPARTMENTS

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Industry and the Financial Community:

MANAGEMENT'S STAKE IN Professional Investor Relations

■ **O. Glenn Saxon, Jr.**
General Electric Company

IT MAY WELL BE that few companies are planning to put new stock issues on the market in the near future, but it is undeniably true that almost every publicly owned company will be in the market for new funds within the next decade. Even those that issue no new shares will, through retained earnings, be continually tapping their shareowners, although they may not think of it in these terms. To some extent, then, supply and demand on the competitive money market will affect every publicly owned company in the years ahead.

This being the case, the public's opinion of a company's stock becomes of vital importance. And perhaps the most critical phase

of investor relations during the next ten or fifteen years will be relations with professional investors—those people who, by their actions or recommendations, have such great impact on the market price of every company's shares. To an even greater extent than they do now, their decisions in the future will affect the ease of financing and the terms on which a company will be able to obtain new funds.

Basically, professional investors and security analysts are important because of their influence on two groups: investment institutions, and potential shareowners.

Investment institutions consist of mutual funds, trust companies, pension funds, college and educational endowment funds, investment companies, insurance companies, and similar institutions. Their investment decisions, which affect many billions of dollars in capital funds, are increasingly guided by the advice of security analysts.

The second group, potential shareowners, consists of all the shareowners of other companies who do not own your company's stock, and also the many millions of persons who are financially able to invest in common stocks and other corporate securities, but whose first purchases will take place over the next ten years. The primary contacts of these potential shareowners with investments will be through customers' men of brokerage firms, mutual fund salesmen, or other representatives of investment institutions.

GOALS OF THE PROGRAM

In its relations with the professional investment community, the company has two key objectives:

1. To provide better, more accurate information to security analysts, so they will base their appraisals of a company and a company's shares more on factual and real information about the company and less on rumor, speculation, and hunch.

2. To encourage the investment community to transmit this better and more accurate information far more aggressively to the many millions of Americans who have the financial ability to invest and the growing desire to put a portion of their money savings into the creative role of risk-taking investment.

The past decade has seen a spectacular growth in the number of individual shareowners. At the same time, however, there has also

been an increasing concentration of the shares of most publicly held corporations in the hands of institutional investors. While the one trend broadens the base of share ownership, the other tends to narrow it.

Economists have characterized the last fifty years as a period that has produced the "institutionalization of personal savings." Since 1900, the total assets (in constant dollars) of financial intermediaries have grown at a rate of about 4.25 per cent a year—a rate that implies a doubling of assets every seventeen years. The percentage of all common stocks outstanding held by insurance companies, pension funds, trust funds, mutual funds, and other institutions increased from 8 to 24 per cent between 1900 and 1949, and it is still growing. This rapid rate of growth indicates the extent to which investments have been rechanneled from personal to institutional hands.

The two most important factors responsible for this increase have been the increased number of pension funds seeking outlets and the ever-growing popularity of mutual funds and other types of investment trusts. Noninsured pension funds currently absorb about 25 per cent of individual liquid savings, and $3 billion (or 25 per cent) of the assets of these funds is invested in common stocks.

THE NEW TYCOONS

Investment institutions have two special characteristics which, from a company's viewpoint, set them apart: First, a company does not communicate directly, if at all, with those persons whose interests are served by the ownership of its stock; second, the largest proportion of the shares held by institutions is directly controlled by professional investors—the managers of pension trusts, insurance companies, banks, and investment trusts. Peter Drucker calls them "the new tycoons"—the trustees of other people's money.

These new tycoons are, for the most part, represented by security analysts. Some of them, such as those who work for mutual funds and trust companies, directly recommend or make actual investment decisions. They invest the money of their shareowners, or their clients' trust accounts, in accordance with their evaluations of various securities. Others, such as those working for investment advisory services, write weekly, monthly, or quarterly reports, advising clients

to buy, sell, or hold certain securities. Still others, primarily those who work for brokerage firms, constitute research departments, which provide, through the customer's man or securities salesman, background information and recommendations to customers on the desirability of investments in certain kinds of stock.

The shareowners and potential shareowners of every company are greatly influenced by the opinions of security analysts concerning the worth of the company's shares; in fact, their opinions help create the market price by influencing the specific investment decisions of potential buyers or sellers.

PROVIDING INFORMATION

The primary role of professional investor relations is to provide the security analyst with better, more factual, more accurate, and more representative information about the company, its management, its character, and its prospects than the average analyst is likely to have learned, even if he has followed as carefully as possible all the available published material. This definitely does *not* mean that security analysts should be given "inside" information. But

GROWTH OF THE NEW TYCOONS

In recent years, the trend toward institutionalization of savings has resulted in a pronounced increase in common stock buying by investment institutions.

In the period 1949-1960, the value of stocks listed on the New York Stock Exchange and controlled by insurance companies, pension plans, nonprofit institutions, mutual savings banks, common trust funds, and investment companies rose from $9.5 billion to $50 billion—from 12.4 per cent of the market value of listed stock in 1949 to 17 per cent in 1960. Including over-the-counter stocks and issues traded on the American Stock Exchange, institutional investors are estimated to hold about $75 billion worth of common stocks.

because a security analyst may be making or recommending an investment decision that will affect several hundred, several thousand, or even several hundred thousand shares, he has a critical financial responsibility to his clients, and the better analysts will study companies in far greater detail than the average shareowner has time for. At the General Electric Company, it is a basic rule that the same question will always be answered in the same way, whether it comes from a security analyst or any other shareowner. This obviously means that in some cases more information will be given to a security analyst than to the average shareowner—but this is because the security analyst thinks about the company more, studies its operations, and is in a position to ask more informed and penetrating questions.

The Company's "Audience"

How is it possible to provide the army of security analysts with the information they need? The task is not as overwhelming as it might seem. Your company's "audience" of security analysts is not the 6,600 members of the National Federation of Financial Analyst Societies, nor even the several hundred security analysts who might follow your particular industry, but rather the 50 to 100 influential opinion leaders among these analysts. Most analysts have neither the time nor inclination to follow all the companies in the industries they are assigned; to some extent, they must rely on the judgment of other experts, for which they trade their own information on other companies.

Most of the analysts who do contact your company will probably want to talk to the president or chief executive officer, or to the treasurer or chief financial officer. Obviously, if your company is one that is interesting to analysts, these officers will soon find that entirely too much of their time is being spent with analysts.

One Man in Charge

There are two comparatively workable, efficient ways of solving this problem. In a relatively large, decentralized company, it works quite well to establish a particular job that has as its main function the proper handling of relations with analysts. The person in this position must be competent to do a full job of service for security

analysts, in terms of both training and access to information about the whole company. Since he cannot force analysts to come and see him, he will have to sell the idea that he is properly informed and that, because it is a major part of his job for the company, he is able to spend more time with individual analysts, to know their desires better, and thus better to serve their specific needs.

In general, for every hour this executive spends talking with analysts, he will have to spend at least two or three hours "boning up" on the company, for he must know as much as possible about the company from many different viewpoints in order to do an efficient job.

Some analysts will want to spend a considerable amount of time seeing various management people and observing operations of the company. To conserve executive time, and also to do a better job for the analysts themselves, it is desirable to arrange that four to six

A LOOK AT SECURITY ANALYSTS

There are many kinds of security analysts, and some approach the problems of analyzing and evaluating investments in a more thorough and professional way than others do. Generally speaking, they can be divided into four rather rough categories:

- The analysts working for major trust companies, mutual funds, pension funds, or insurance companies. These gentlemen are increasingly professional in their analysis, their outlook, and their questions. They tend to think in terms of long-term growth, but they keep an eye peeled for the current economic climate.
- The analysts working for advisory services, large brokerage firms, and leading institutional brokers. These analysts also tend to be professional in their approach. In some cases, the person who visits your company will later be selling his own analysis to customers of his brokerage firm—large estates, pension funds, and mutual fund

analysts of relatively the same degree of sophistication and experience visit a plant together, or speak with several management people at the same time. This procedure usually encourages lively discussions and develops a greater amount of worthwhile information.

For a smaller company, one where the analysts may be more specifically desirous of talking to those persons who set top policy, the problem seems somewhat different. Here again, however, it is best to have a specific person, be he an officer or a person reporting to an officer, on whom analysts can regularly call. If this is only a part of his assigned responsibilities, he may find it desirable to act, at least in part, as a scheduling agent. Knowing what the analysts' needs are, he could well provide the basic information about the company, then set up less time-consuming interviews between the executive leadership of his company and individual analysts.

For the guidance of the executive concerned, it would be well to

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managements. In other cases, he will prepare reports that are used by the firm's salesmen as a service to their customers.

- The analysts working for the many smaller trust companies, mutual funds, etc. These institutions do not have enough volume to justify covering the investments they are interested in as extensively as they would like. Although their analysts are rapidly becoming more competent and professional, they tend to rely more heavily on secondary sources: brokerage firm analysts and salesmen, other analysts, market letters, and advisory services.
- The analysts working for brokerage firms that have yet to develop a sound concept of investment research. Some of these analysts are extremely bright and successful, but others tend to be more oriented to the hot tip or the attempt to get "inside" information—and most tend to take a shorter-range approach to investment.

set forth certain principles and practices to govern the company's professional investor relations. As an example of what might be included, here are the ground rules that we try to observe at General Electric:

1. We try to be completely straightforward. If a question is in an area we consider confidential, we simply tell the analyst so, but we constantly try to insure that information about our company is made public unless there is a good reason to keep it confidential.

2. We do not give out earnings estimates or forecasts. It is the analyst's role to do this type of predicting or estimating, if he so desires, basing his estimates on the information and facts he asks for.

3. We do not give out profit margins by groups, or monthly figures.

4. We are not afraid to admit it when we are stumped by a question—but if the question is legitimate, we research the answer and call the analyst back with the information.

5. When an analyst calls for the first time, we take 15 to 30 minutes to outline our management philosophy, our organization structure, and a few other key factors that are important to the development of a balanced understanding of the company.

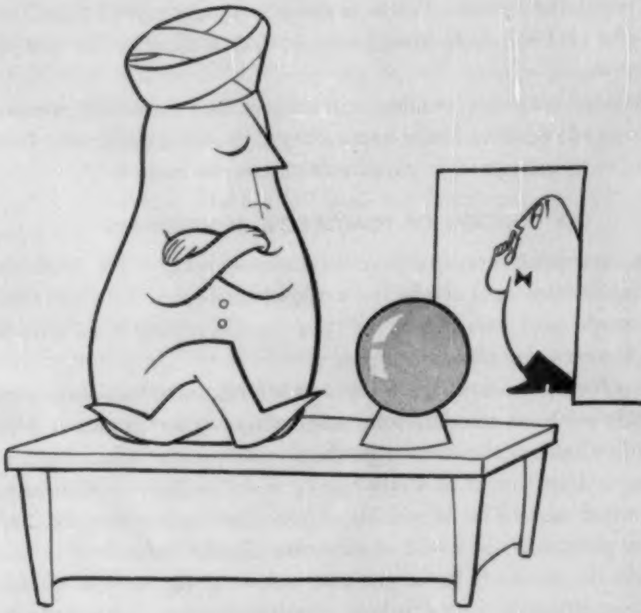
6. We do not give analysts souvenirs or favors of any intrinsic value, nor do we pay their transportation or living costs when they visit us or any of our plants.

7. We will not approve or disapprove any written reports by analysts about the company, nor will we correct in any degree estimates about facts we consider confidential, but we will help an analyst to check facts or figures for accuracy if they have been publicly released.

8. We do not make mailings to all analysts, nor even to all electrical manufacturing industry analysts, but occasionally we may make special mailings to those analysts who call on us regularly.

As early as practicable in your acquaintance with representatives of any particular investing institution, it is wise to find out as much as you can about its investment philosophy. This may have an important bearing upon your relationships over time. Some of the largest institutions actively follow only about 80 companies, for example, while some much smaller ones follow several hundred.

(*Continued on page* 69)



Are You Tomorrow-Minded?

■ **Auren Uris**
Research Institute of America

NEWSPAPER HEADLINES daily trumpet the precedent-shattering pace of change. Each new rocket-launching propels us with increasing speed into the Space Age. Atomic-powered ships cut new paths through man's oldest open road. Our physical sciences advance at such a clip that textbook publishers face a serious problem of turning out volumes that are useful long enough to pay off their production costs. Even the human race is changing—quantitatively, if not qualitatively. The rate of population growth, 1.7 per cent annually, is not much different from the past, but it represents bigger and

bigger population boosts. For example, our population, 175 million at the end of 1958, will jump to about 200 million by the end of 1965.

Certainly, operating under circumstances like these will require a resetting of sights and new approaches to business problems. Our problem is to anticipate, to prepare for tomorrow now.

THE CONCEPT OF TOMORROW-MINDEDNESS

The successful executive is a two-timer—literally. He works in the here-and-now, and also in the world of tomorrow. To neglect the latter would find him caught off base by the changed pattern of events the new day always brings.

Grant for the moment that to deal only with immediate situations, or to rely solely on standard long-range planning techniques in dealing with what lies ahead, may produce inadequate results. Short of creating a Department of Clairvoyance and Prophecy or running a seer-wanted ad in *The World Street Journal,* can anything be done to get a glimpse of the world of tomorrow the day before?

There is an attitude, a concept, summed up in the phrase, "tomorrow-minded," that can help executives prepare more fully for the future. Tomorrow-mindedness is more than just planning ahead. Long-range planning that is limited to simple extensions of present situations often fails to take into account the possible eventual impact of unforeseen conditions and unpredictable changes. Of course, there will always be an X factor, but tomorrow-mindedness can help reduce the unpredictable to its smallest possible dimension. Putting it another way: Long-range planning is primarily a function of logic; tomorrow-mindedness draws more heavily on imagination.

LIMITED OUTLOOKS

Substantial obstacles hinder many executives from mastering tomorrow-mindedness. Most of these are habits of thinking that needlessly limit perception. For example:

- *Bandwagon thinking.* It doesn't take much brainpower to go along with the majority, the popular hue and cry of the moment. Too often, executives who should know better adopt an idea or a viewpoint simply because it is "generally accepted." As a matter of fact, it's the occasional individual who can hop off the

bandwagon and make his own way who often reaches the goal of accomplishment. Probably the classic example is the case of American Motors, a company that foresaw the tremendous possibilities of the compact car at a time when the goal of every Detroit carmaker seemed to be bigness. The tomorrow-minded decision to concentrate on the production of a smaller automobile enabled the Rambler to seize and hold a sizable portion of the American market for compact cars.

- *Too much "todayness."* The handicap of viewing tomorrow's needs in terms of today's biases is particularly prevalent in the management training area. A substantial number of management-development programs, for example, are busily equipping managers to face up to the needs that are pressing in upon us here and now. In many cases, however, by the time the managers have been "developed," the executive jobs they're supposed to master will have changed.

- *"Tomorrow is already here."* It's a common phrase, and a common outlook, particularly these days. Looking about us at the startling changes of recent years, we say, "Tomorrow is already here"—and too many of us have the comforting feeling that we are satisfactorily coping with the future. Actually, of course, the phrase doesn't mean that we are looking at tomorrow today, but rather that the pace of change is even faster than we had anticipated. It means we've judged incorrectly, that developments not expected to take place until tomorrow are already upon us, and that unless we quickly reset our sights, tomorrow will bring additional changes that will catch us by surprise.

PRACTICING EFFECT ANALYSIS

How can tomorrow-mindedness be developed? First, by accepting the fact that tomorrow, in our era, can never mean just more of the same. The pace of change—technological, economic, and political—is so great that we must inevitably be influenced by it. And whether the influence will be beneficial or harmful may well depend on our ability to see and interpret the handwriting on the wall. The first step in preparing to meet the future is developing a pervasive sense of change.

One aspect of tomorrow-mindedness is, in reverse fashion, related

to the process of decision-making. When you make a decision, you try to answer the question, "What action, X, can I take to achieve the desired result, A?" The tomorrow-minded executive approaches the problems of the future from the opposite side of the equation. Here the causal action has already taken place, and the question to be answered is, "Since event A has taken place, what effect, X, will result?"

The process of developing an answer might be called effect analysis, and it is somewhat similar to the traditional steps of decision-making:

1. *Identify the causal event*—the trend or factor in the present situation that you feel will play an important part in tomorrow's developments. In this identification step, you do not merely tag the event or trend, but you examine related facts—the forces that have brought about or influenced it.

Let's say, for example, that one of your competitors has raised his prices 5 per cent. You assemble as best you can the reasons for this development, and any immediate consequences, before moving on to the next step.

2. *Develop possible alternative effects*—the consequences that may show up in the future.

What effect will the competitor's price increase have on your market? There are a number of possibilities:

- A percentage of his customers may become available to you.
- Other competitors may make price moves.
- You may be put into a position where you must re-examine your own price position.
- To keep up with a sudden flood of orders, you may have to increase output substantially.

3. *Select the most likely effects.* Out of the array of possible consequences, you choose the one (or more) that, in your opinion, is most likely to occur. (As in decision-making, you must operate in the area of probability.)

4. *Make countermoves*—take the steps that give you the edge, that help you exploit the effects and shape tomorrow's circumstances as closely as possible to a desirable pattern.

Of course, the steps above are a simplified scheme. In practice, you have considerable latitude. For example, once you're alerted to

possible effects (Step 2), you can watch for further developments that will help to make your selection (Step 3) more intelligent and informed. And the countermoves in Step 4 may be made on a tentative basis, flexible enough to meet the developing situation.

DEVELOPING TOMORROW-MINDEDNESS

There are a number of specific techniques that can help thin out the fog that shrouds the shape of the future:

1. Imagine Tomorrow's People

Knowledge of the directions in which our population is going represents a major key to preparedness. Many groups with which the future of your company is closely knit are developing new characteristics, new facets. The population explosion provides some picture of the quantitative differences you'll be facing, but in addition, qualitative developments are possible. The tomorrow-minded executive will, for example, consider possibilities like these:

Customers. "What will it be like to do business tomorrow if the interests of our customer group shift as a result of changes in education, average age, serious-mindedness, or any other quality affecting the purchase of our product or service?"

Employees. "What will it be like to hire, train, and deal with employees, if their educational level, economic level of their parents, degree of skill, and general work attitudes continue in directions already under way?"

Executives. Over the last ten years, the number of in-company executive-development programs has increased by 340 per cent, according to an estimate of the American Management Association. With one eye on tomorrow, today's manager might ask, "Of the hundreds of programs instituted, which will be obsolete, which will remain effective under tomorrow's rising standards for executive performance?"

2. Answer Hypothetical Questions

Develop sound answers to hypothetical questions about various areas of your company's operations. Consider, for example, two important functions—marketing and production.

(*Continued on page* 73)

The Trend That Got Away

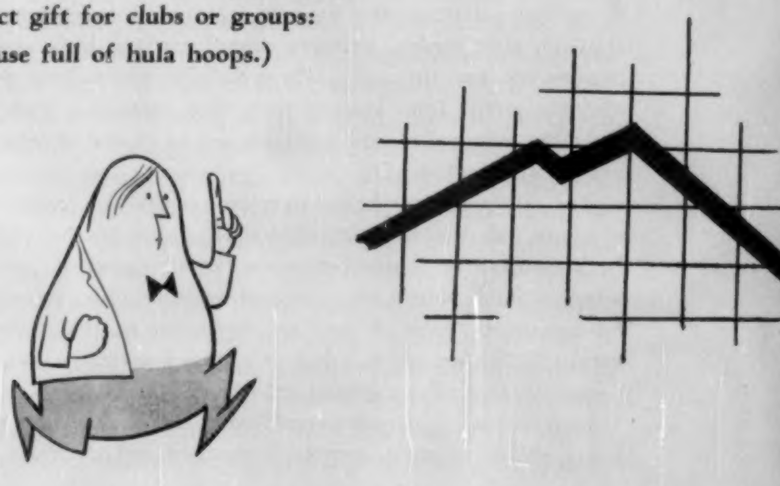
by Richard Armour

Consider, if you will, my friend,
That great phenomenon, the trend.
It is the trend that tells the knowing
Which way the current wind is blowing;
It is the trend that's at the heart
Of every survey, every chart.

Don't move, don't straighten up or bend,
Until you check the latest trend.
The fact is, though you may deplore it,
There's no way you can quite ignore it;
You'd best get with it when you sight it—
It does no good to try to fight it.

For, like a mighty wave, a trend
Can help you quickly to ascend—
Can sweep you up with greatest ease
To heights as lofty as you please,
And you are sure to make a winning
By jumping on while it's beginning.

But those whose fortunes soon diminish
Don't see the trend until its finish,
Then make their futile, frenzied leap.
(And by the way—I'm selling, cheap,
The perfect gift for clubs or groups:
A warehouse full of hula hoops.)



Make RETURN ON INVESTMENT *Work*

■ **Edward G. Koch**
Professor of Business Administration
University of California

FOR THE FORESEEABLE FUTURE we can expect a continuation of relatively tight money, stringent capital markets, high costs, and a burdensome tax structure. These factors, which have prevented after-tax profits from keeping pace with expanding business, will make the economical and profitable use of capital of vital importance in the years ahead.

The ability of management to employ capital at a satisfactory rate of return will determine the corporation's future success and growth. In a competitive business economy, capital gravitates toward the more profitable enterprises; companies with declining rates of return on investment, even if they are expanding at the moment, will eventually be brought to a halt as capital flows away from them to companies that offer a greater return.

Increased sales, increased employment and production, a respected name, dollars of profit, acceptable products and services—all these

are unquestionably desirable, yet separately or even together they are not enough to insure continued existence and growth. In the long run, they must be supported by adequate return on capital if the company is to prosper.

A YARDSTICK FOR PROFITABILITY

Thus, any appraisal of a company's effectiveness must be based on its successful employment of capital. And the most successful companies are those that have given attention, not only to adequate profit return for the company as a whole, but also to a satisfactory return on investment for each operating division and subsidiary. In the final analysis, projects and activities in divisions and subsidiaries must be evaluated in the light of their demands on company assets and their probability of earning a satisfactory return on those assets. Products and projects that fail to meet this standard neutralize the value of other products and projects and may seriously limit the company's ability to press advantages in more promising areas.

In multidivisional and multiproduct companies, the ability to employ present assets profitably and to develop opportunities for the successful employment of additional capital depends on the individual contributions of the various divisions and products and their opportunities for profitable growth. Decentralization of management, therefore, implies the need for a common yardstick of profitability measurement. Product income and expense statements, product profit on sales, and even standards of performance based on the profit rate on sales fall short of giving management all it requires to manage and control a variety of products and divisions. But many companies—not only large-scale industrial corporations, but such defense-oriented enterprises as Litton Industries, General Dynamics, and other large government contractors—have found return on investment to be a useful and accurate measure of the profitability of various company units.

Basically, decentralization of management means delegation of the profit responsibility of the chief executive. It implies granting to subordinates responsibility for, and authority over, all functions that bear on current and future profits. Since the logical vehicle for such decentralization is the product line, many companies have adopted a divisional or subsidiary company organization, with general man-

"The value of decentralization lies in the fact that it brings the profit motive closer to more management people by pushing profit responsibility as far down the line as is practicable . . ."

• • •

agers responsible for product design, manufacture, and marketing. The first step in the process is the establishment of divisions embracing broad product lines or groups of products having similar characteristics in each of the functional areas of sales, manufacture, and others. The second step is the formation of product departments within divisions.

CONTROL AT LOWER LEVELS

But decentralization need not stop here. Although decentralization of profit responsibility usually is not practical below the product-department level, responsibility for planning and controlling cost and expense can be delegated further. This involves the establishment of expense-control centers below the profit-center level, holding middle-line supervision responsible for planning and controlling the manpower, salaries, and operating expenses for individual units.

Some companies hold to the view that the greatest potential for management control exists at even lower management levels. A. O. Smith Corporation goes down to the foreman level, because first-line supervision has primary control in requisitioning the bulk of materials and supplies, in determining the size of the labor force, and in spending much of company funds. Likewise, Armco Steel Corporation believes that its profit-making ability can only be as great as the combined skill of all its managers, from the foreman to the president.

The value of decentralization lies in the fact that it brings the profit motive closer to more management people by pushing profit responsibility as far down the line as is practicable. In companies and divisions organized functionally—i.e., sales people reporting to other sales people all the way to the top, and so on—emphasis tends

to be placed on functional perfection rather than profit maximization. When smaller profit centers are established, profit responsibility and functional responsibility are brought into closer relationship all down the line, and the profit implications of functional perfection are more readily apparent. Furthermore, the action needed to improve profits can be pinpointed more effectively.

A WIDESPREAD CONCEPT

The appropriate yardstick of profitability measurement for the profit center is return on investment—by products or groups of products, as well as for the total profit center. Of course, the use of return on investment to evaluate the effectiveness of management is not new. Indeed, an adequate return on assets employed is basic to sound business management. What is new is the rapid increase within the past few years in the number of multidivisional and multiproduct corporations that have accepted the point of view that return on investment is the only gauge by which performance can be judged, and have fully adopted this principle as an integral part of managerial planning and control.

The widespread use of the return-on-investment approach probably dates from December, 1949, when T. C. Davis, treasurer of E. I. du Pont de Nemours & Co., addressed the American Management Association and presented a complete discussion of the theory, giving a practical demonstration of how it applied to the Du Pont organization. The concept gained momentum with its adoption by such highly successful companies as General Electric, Monsanto Chemical, General Motors, and other well-known decentralized companies, and in recent years it has come into extremely wide use. It is no exaggeration to say that the rigid adherence to the use of the return-on-investment tool for internal managerial control largely contributed to the remarkable postwar development of the Ford Motor Company, whose former chairman, Ernest Breech, was weaned on the concept at General Motors.

WHAT CONSTITUTES INVESTMENT?

The prime use of return on investment is for internal management control, and it can be fitted to the requirements of the individual company. Generally, the meaning of investment is "operating invest-

ment" as distinguished from net worth or capitalization (net worth plus funded debt). In most companies it is more clearly defined as total capital employed, and it represents, with some variation, the total assets used in the business—that is, working capital in cash, accounts receivable, inventories, and permanent investment in plant, property, and equipment. It is usually the figure shown at the bottom of the asset side of the balance sheet.

For the purpose of internal management control, the source of the funds represented in these assets is not significant. All businesses employ funds in excess of equity investment, obtained from vendors, accrued taxes, preferred stock, or funded debt. For control purposes, however, the interest is in testing the effectiveness with which managers employ the total funds and resources made available to them. How well these funds are put to use may be determined by analyzing the trend in return on investment and measuring experience against that of competition. For this purpose, "operating investment" or capital employed supplies a common base and eliminates the confusion that might arise through attempting to use, let us say, net worth or equity, since companies accumulate the funds they are using in their businesses in different ways. Furthermore, assets as they are applied to divisions and product groups are more meaningful, and they lend themselves to more practical control than does net worth or net equity.

THE DU PONT FORMULA

The Du Pont formula for return on capital employed is simply the percentage of profit on sales times the investment turnover in sales—or stated another way, net profit divided by sales times the the sales divided by investment, as follows:

$$\frac{\text{Net Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Investment}} = \%\ \text{Return on Investment}$$

For instance, if a business earns a profit of \$10,000 on annual sales of \$100,000 and employs a total capital of \$50,000 in doing so, it has a 10 per cent profit on sales and turns over its investment twice annually. Therefore, its return on capital employed is 10 per cent × 2, or 20 per cent. (Incidentally, this 20 per cent return on

(*Continued on page* 77)

THE BUSINESS CLIMATE AROUND THE WORLD

Condensed from Business Week

WITH ITS OWN economy in recession, the U.S. is watching Western European economies closely. The area is the fastest growing site of U.S. investments abroad, a top market for exports, and the destination of much U.S. capital that's going overseas in search of higher interest rates.

Slowdown in Europe

Few European economists are predicting a European recession. They see their economies leveling off and expect a slower rate of growth in 1961. Over all, they are content with the outlook, except in Belgium, which has problems of its own.

At the European Economic Community (EEC) headquarters in Brussels, economists estimate that the combined gross national product for the six-nation group will grow about 4.3 per cent in 1961—well below the 7 per cent rate of 1960.

Throughout most of Europe in 1961, consumption will rise—but not so much as in 1960. Capital spending is also expected to go up, and exports will probably level off.

The supply of labor will continue tight—but there won't be such a shortage as there was last year. West Germany and the Netherlands have real labor shortages, but Britain is

beginning to see layoffs in the automobile industry. Throughout Europe, there will be increased demands from labor for higher wages and, in some areas, for shorter hours. This additional money for private consumption will probably push West European prices up.

Credit will remain tight in most European nations, although there have been some relaxations. Money is expected to be especially tight in Italy, where the government fears inflation. In contrast, interest rates are low in the Netherlands.

Closer Trade Ties

The European economies will be moving toward closer trade ties during the year. The EEC countries will go ahead with their accelerated plan for tariff cuts, moving a year ahead of schedule. The seven-nation European Free Trade Association (EFTA) will reduce tariffs on its members' goods by 20 per cent.

In Britain, a trade imbalance and inflationary pressures are causing concern. Relatively high prices appear to be holding down exports, while the removal of many import restrictions has opened the door to goods from abroad. Pushed by rising wages and consumption, prices edged up during the last half of 1960, and more wage demands are expected in 1961.

In West Germany, the most acute problem for industry is the labor shortage, and there is a mild threat of inflation. After years of denial while Germany rebuilt, labor unions are in a strong bargaining position and are exercising their power.

In France, the franc is on a solid footing, industrial production is up, and exports have increased. Barring a domestic political crisis over Algeria, the trend will continue this year, although exports may be down.

In Italy, production will level off as exports drop. Businessmen hope to make up the loss from rising demand in domestic markets. Imports from the U.S. are up 75 per cent over 1959, and the 1961 figures are considered a sure bet to beat 1960's.

In the Netherlands, wages will still be lower than in many other European countries, despite a labor shortage. The government holds down labor costs to insure economic stability. But the labor shortage has caused the government to stop encouraging foreign investment.

In Belgium, a general strike developed because the government is trying to institute an austerity program to set the economy back on its feet. Belgium has been rocked by the loss of income from investments in and exports to the Congo, an accumulation of government budget deficits, high unemployment, and the loss of some tariff protection due to EEC's accelerated program.

In Sweden, industrial investments are likely to show a big rise—perhaps 10 per cent to 15 per cent over last year. Personal incomes will increase about 10 per cent.

Latin American Outlook

Although economic problems are somewhat the same throughout Latin America, there is a wide diversity in political approach. Some Latin American economies are starting to pull together, but the effort is weak and hesitant. Eight nations have signed a

treaty in Montevideo, establishing the Latin America Free Trade Association (LAFTA), and in Central America, four nations (Guatemala, El Salvador, Honduras, and Nicaragua) have established a Common Market and the Central American Development Bank, with $26 million in capital.

Dependence on Exports

The common denominator of most Latin American economies is their dependence on export commodities. With the West European economy leveling off and the U.S. sliding down, the outlook is not encouraging.

In Mexico, the government is moving more and more into private business spheres. Mexico is pushing hard for local production to substitute for imports, especially in fertilizers, automobile parts, and drugs. U.S. exports will be changing from finished goods to basic production equipment.

In Venezuela, the economy is in the midst of a recession, caused primarily by political rather than economic conditions. The government has introduced an "expansionist" reform program and has cracked down on left-wing agitators. But it will be touch and go until political tranquility is solidly established.

In Brazil, prices have been shooting up 25 to 35 per cent a year during President Kubitschek's forced draft economic development program. Gradual anti-inflation measures are expected under the new president, Janio Quadros, who uses the term "disinflation." He will probably institute a "no new starts" policy in public works and gradually reduce bloated public payrolls.

In Argentina, inflation is a threat. Economics Minister Alsogaray's stringent measures have stabilized the peso at 83 to the dollar, but its purchasing power fell 14 per cent during 1960. This year, labor demands will push prices up further, and credit is likely to be more available, adding to the inflationary push.

In Chile, the administration took a bad setback with the ravages of an earthquake last year. But the government has slowed the inflationary spiral and is gradually bringing the economy under control.

Asia and Australia

American businessmen will find few common economic threads in the Orient and Australia. Like Western Europe, Japan has been enjoying a phenomenal boom. Japanese economists see a slowing down in growth, but no leveling off. Capital plant expansion will continue, and it is estimated that private capital expenditures will rise 10 per cent this year. Japan's unprecedented consumer splurge will also continue. With traditional year-end bonuses reaching record heights—some the equivalent of a year's wages—Japanese consumers went wild.

In the Philippines, the economy should gradually improve as controls are relaxed. Imposed in 1959 to curb inflation, they have been stiff enough to dry up credit, stop business expansion, and make "tight money" an everyday topic of conversation.

In India, this year will see the finish of the Second Five-Year Plan and the start, in April, of the Third Five-Year Plan. At the moment, the outlook is not a happy one. The nation's foreign exchange reserves are

down to rock bottom, and a crisis is taking shape. With less than a third of the foreign exchange needed for the new five-year plan pledged by the industrialized nations, the plan may have to be pruned. On the brighter side, several steel, power, machinery, and irrigation projects are operating. The government is easing restrictions on private enterprise, and foreign investment is gradually increasing. Commercial and industrial credit is becoming more available.

In Australia, most businessmen look for consolidation of gains made over the last couple of years. They will be fighting inflation and high costs. Employment is expected to remain high, while interest rates go up to tighten credit.

Because of a gap in the balance of trade, the government will try to restrict imports and to expand exports. It will also continue to encourage foreign investment.

The Middle East

For 1961, most Middle Eastern countries will see limited economic expansion, mostly in the public sector. There will be efforts at price controls, wage freezes, continued import restrictions, tightening of credit, and accumulation of reserves to pay off outstanding debts.

The climate for foreign investment has shifted from fair to poor—except, perhaps, in oil-rich Kuwait. Local private capital spending is also falling off. This is due not so much to economic conditions as to political uncertainties and lack of confidence in the ability of governments to control the economies.

In the Arab Middle East, a deflationary situation has developed and will continue.

Politics in Africa

Tropical Africa is dominated far more by politics than by economics. The 18 African nations that became independent in 1960 are in their first full year of political freedom, but few Western observers will venture to guess what courses they will choose to follow.

In the Union of South Africa, this year will see an attempt at recovery. The racial conflicts of 1960 brought on a steep slide in confidence and a rapid outflow of capital. Private investment plans were shelved, and boycotts abroad deprived exporters of several promising markets. Only the gold mining industry continued to expand.

The government has countered with more tariff protection, an export drive, and government spending. In 1961, these policies will continue and will be supplemented with a vigorous program to attract foreign investment. Continuing racial strife, however, makes the economy a question mark. ♦

WORKING CONDITIONS have improved since 1600 B.C., according to a recent item in *Industrial Relations News*. A Sumerian tablet found by archeologists in Iraq advises employers at harvest time to "brook no idleness, and stand over the hands during their work, since it must be finished by working day and night for ten days."

A DISTRIBUTOR'S-EYE VIEW OF

Advertising and Promotion

By D. A. C. McGill

Condensed from Industrial Distribution

INDUSTRIAL DISTRIBUTORS rate catalogs and direct mail as their most effective forms of advertising and sales promotion. But they are turning increasingly to clinics and demonstrations to help them push sales.

This is a finding of a recent survey conducted by *Industrial Distribution* magazine among industrial distributors throughout the country. Among the other findings:

- Distributors spend an average of .4 per cent of gross sales on advertising and sales promotion.
- Nearly half of the distributors replying to the questionnaire budget their advertising and sales promotion expenditures.
- Only 23 per cent of the respondents have regular advertising and sales promotion departments, but 74 per cent place the responsibility for the activities in the hands of a designated individual.
- A little over 25 per cent of the respondents use the services of advertising agencies.
- Most of the distributors spend the major part of their advertising and sales promotions outlay on direct mail, clinics and demonstrations, and a catalog issued periodically.
- Nearly all of them note a decline in the use of gifts, premiums, and novelties.
- Many distributors are still critical of manufacturers' literature—lack of space for distributor's imprint, failure to emphasize distributor's role, no consultation with distributors on promotion programs, etc.

Catalogs

The respondents' largest sales promotion expenditure was for a periodically issued catalog. In general, they issued it every four to seven years and spent an average of $24,000, which was written off in anywhere from one to three years. The cost per copy ran from less than a dollar to as much as $30.

Most distributors indicated a preference for the letterpress printed catalog prepared by an outside firm. A third of them had catalogs printed by offset, in accordance with the catalog plan adopted by distributor associations. Only 13 per cent issued catalogs in loose-leaf form. All distribu-

tors had doubts about the effectiveness of the catalog as a sales tool. One distributor who collected old issues of a catalog from buyers in preparation for issuing a new one was horrified to find that less than two dozen out of several hundred showed any evidence of having been used.

But doubtful as they are about a catalog's effectiveness, many distributors are skeptical about the ability of alternative forms of promotion to establish their name among buyers, or to describe and display their range of products. Some have settled for a brief, attractively printed classified index of their lines, but wonder if this is adequate.

Clinics and Demonstrations

Clinics and demonstrations are an increasingly popular form of sales promotion. These periodic sessions are held either on distributors' premises or in customers' plants, where the distributor and one or more of his suppliers bring customers up to date on ways of reducing production costs and increasing production efficiency. Sometimes mobile demonstration units (usually a station-wagon or trailer) are sent to plant sites, where salesmen show off equipment and tools to the shop personnel.

Newsletters and House Organs

External newsletters and house organs are rated high in effectiveness. These publications are produced either by the distributor himself, by an outside organization or agency supplying a number of distributors, or by one of the distributor's manufacturers. The format is generally a four- to six-page bulletin containing distributor and product news, application stories, and suppliers' advertisements. They are sent mostly to purchasing agents and key shop personnel.

Direct Mail

Among advertising techniques, direct mail ranks first in effectiveness. This type of advertising includes the whole assortment of bulletins, reprints, circulars, folders, manuals, and other matter (most of it supplied by manufacturers) sent out at intervals by distributors.

Two-thirds of the distributors have a regularly scheduled program of direct mail advertising. The frequency of mailings ranged from once or twice a year to several times a week. A majority said they updated their mailing list at least once a year; the revisions were carried out by office workers in most cases, by salesmen in others.

For the most part, distributors stress products in their advertising. More than half, however, said they used an "institutional" theme in much of their advertising—emphasizing their organization, service, range of products carried, etc.—and 20 per cent reported that they tried to promote the industrial distribution function as a whole.

Opinion Split

Opinion seemed to split over the effectiveness of advertising in telephone directories. Although 98 per cent of the respondents advertise in this way, many contend that response comes mainly from small or casual buyers. Just as many others, however, think it important to keep their

main product brand names before the public in this frequently used medium.

Distributors are also split 50-50 on the question of their ability to coordinate direct-mail campaigns with their suppliers' advertising programs. One distributor's comment: "Are you kidding?" Like many, he has been unable to mesh his marketing efforts with those of suppliers, because he has little contact with his suppliers' advertising or marketing people.

Manufacturers' Literature

About 75 per cent of the distributors feel that manufacturers' literature is, in general, satisfactory. But over half of them had suggestions for improving it:

• *Distributor Imprint:* A bone of contention is the failure of many suppliers to imprint, at no charge, mailing pieces to be used by distributors; to leave sufficient space for distributor's imprint; and to show distributor's imprint in an advantageous position on the mailing piece.

• *Consultation with distributor:* Several distributors plead: "Manufacturers should work directly with us in preparing a piece;" "*Listen* to us when we tell what we need;" "Forward us samples of direct mail pieces and let us know how they propose programing it."

• *Distributor emphasis:* Distributors want more emphasis in manufacturers' literature on the economic function of the industrial distributor.

• *Stress on applications:* Distributors like photographic application stories giving specific, concise details of how a product is used. Some feel literature tends to be "too general" and doesn't stress "profit plusses" of products.

• *Postal information:* They want not only reliable postal information on certain mailings, but also a bulk mail permit imprinted along with the distributor imprint.

• *Better copy:* Much copy, they feel, is not written with an informed industrial user in mind. "A lot of it sounds like it came from an advertising man who has never handled or seen the product," one distributor says. Another distributor criticizes the emotional appeal of much literature, and emphasizes that a rational approach is preferable in reaching matter-of-fact plant men.

• *No magazine advertisements:* A few distributors object to the excessive use of magazine advertisement reprints as mailing pieces. "While some of them are good," says one, "a lot of them were written for another purpose."

• *Prompt material:* Distributors with a high frequency of direct mailing report that they often encounter delays in getting appropriate literature from manufacturers.

• *Stock items:* "Some literature," a Michigan distributor declares, "stresses infrequently used goods rather than the stock merchandise ordinarily carried by distributors."

• *Inquiries:* Many distributors suggest that the postcards accompanying mailing pieces should bear the distributor's address. Often, they say, the postcards direct inquiries back to the manufacturers; they would prefer to get responses first and, if necessary, tell the manufacturer about them. ◆

Putting the Board of Directors to Work

By Richard F. Janssen

Condensed from The Wall Street Journal

ONE MORNING RECENTLY, seven directors of Hupp Corp., a Cleveland manufacturing company, gathered in the firm's factory, fortified themselves with coffee and rolls, called in half a dozen aides, and seated themselves around a conference table for their regular monthly board meeting.

They didn't emerge until 3½ hours later. In the interim, they questioned a stream of division heads, discussed half a dozen possible mergers, approved an expenditure for bulk freon gas storage that would save $10,000 a year, learned which customers were behind in paying their bills, and interrogated management on subjects ranging from clutch disks on jet planes to their air conditioner sales in Cuba. Explains Hupp's chairman, John O. Ekblom, "We have a working board."

More companies are making the "working board" an increasingly important tool of management. Tightly squeezed profit margins, mounting competition, and diversification into unaccustomed fields are all spurring companies to make better use of the top talent in their board rooms.

How can companies put their boards to work? Many are doing it by arming directors with more facts and bringing them in earlier on problems that develop. They're seeking more outside directors with special knowledge and fresh viewpoints, they're taking directors on more trips

for firsthand looks at company facilities, and they're using directors as super-salesmen.

Longer Meetings

In companies across the country, meetings are beginning to last longer. "Five years ago, our board meetings lasted only an hour, but now they run five," says Ben W. Heineman, chairman of the Chicago & North Western Railway. Previously, a few directors and officers did most of the work, and the board simply passed on their proposals. "Now the full board works out the plans itself, and management gets the benefit of the knowledge and thinking of all the members," Mr. Heineman says.

For many directors, a formal monthly meeting is only the beginning of their duties. "I recently joined the boards of two companies," complains a Chicago executive, "and as a result, I haven't had dinner with my family one night in the last two weeks." Besides the monthly meetings, there are meetings of an operating committee, an executive compensation committee, and a long-range planning committee, plus frequent telephone calls, conferences stretching over long lunch hours, dinner meetings lasting well into the night, and even weekend sessions.

Even then, the job isn't finished. "Our directors can't come in fully informed unless they spend two or three days on their homework," says Edward K. Thode, vice president and secretary of General Mills, Inc., Minneapolis. Their "homework" consists of studying "one or two packets of information mailed to them every week," he says; the packets contain proposals on such topics as financing feed purchases for turkey raisers, building an addition to a mill, or moving a plant.

As they demand more of their directors' time, companies are also compensating them better. One of every six companies surveyed by the National Industrial Conference Board has increased fees "moderately" in the past two years. For most directors, however, service and the opportunity to learn are the chief motives for taking on the job.

Other Motives

Motives, of course, vary from director to director. A company officer is expected to accept any offer of a place on the company's board as part of his obligation to his employer. Board membership also enhances the officer's prestige within the company.

Prestige can also be a factor for an outside director; his position on a board shows that his management talents are in demand. And, in cases where mandatory retirement creates a good deal of free time for men who have been top corporate executives, board membership offers an opportunity to keep close to the business world.

Many outside directors serve on boards primarily because they or their families hold large blocks of stock in the companies involved. They're there to protect their interests. For the same reason, a bank or an insurance company that lends money to a corporation may place one of its officers on the company board. Attorneys often sit on boards as representatives of major stockholders or the companies' own law firms.

Outside directors are often selected to serve on the board because of their special knowledge. For example, Charles H. Percy, president of Bell & Howell Co., picked Theodore V. Houser, retired head of Sears, Roebuck & Co., for his skill in dealing with consumers. At one board meeting, officers displayed a new electric-eye camera. Mr. Houser looked at it approvingly, but with one reservation: "It's that same old black leather," he complained, suggesting, "you ought to make it more appealing to women." Within a few months, Bell & Howell added a new model covered in vinyl plastic that resembled salt-and-pepper tweed. Reports one official: "We continue to sell the black one because men like it, but most women buy the tweed one."

Some companies switch to outsiders largely because of their discouragement with inside boards composed of their own officers. "An inside board meeting is nothing but the president reporting to people who work for him, and all of them approving the things they have done themselves since the last meeting," says one strong exponent of outside boards.

The Case for Connections

The "connections" that outside directors bring can often prove helpful to companies. For example, since Alfons Landa gained control and joined the board of Fairbanks-Morse in 1958, "he has been able to get us substantial business from Fruehauf Trailer Co., and sees that we in turn give a substantial share to them," says David Karr, acting chief executive officer. Mr. Landa, he notes, is a director of Fruehauf. "Some of our directors have strong Washington connections, and it's enormously useful to expose our younger executives to them," Mr. Karr adds.

Other companies, too, don't overlook the political value of certain outside directors. One railroad chooses some directors from along its route because, says its president, "we like to have a friend in court" in local political matters that can affect the road.

Specialized Knowledge

Companies adding outside directors often find they get a bonus when the director draws on the skills of specialists within his own firm. David M. Kennedy, for example, is chairman of Continental Illinois National Bank & Trust Co. of Chicago. When a matter calling for specialized banking knowledge comes up in one of the firms of which he is a director, including International Harvester Co. and Commonwealth Edison Co., "I'll have people in our bank take a look at it," he says.

Directors sometimes find they can do a more thorough job if they don't confine their meetings to the seclusion of their board rooms. Every year since World War II, the Atchison, Topeka & Santa Fe Railway has put its 16 directors aboard a special train for a closer look at its 13,000-mile system. "Last year they spent about eight days going from Chicago to Phoenix, Los Angeles, and San Diego," says Ernest S. Marsh, president. One benefit is that they get acquainted with operating personnel along the way, so that later, "they may actually know the man they're considering for promotion." ♦

office design:

Trends for Tomorrow

By J. Gordon Carr

Condensed from Office Management and American Business

MOST COMPANY PLANNING for the years ahead includes office requirements, and companies often lease all the space they can possibly use in the "foreseeable" future. For many firms, however, this "future" has turned out to be nearer than expected, with actual growth happily outstripping the projections.

In some cases, the only alternative has been to move to a new building for the necessary space, even though rents may be higher there. Other companies have been luckier: They leased far more space than their apparent needs called for, then subleased for short terms to cover the cost. As the subleases ran out, they took over. Even here, however, growth has been so phenomenal that in some instances companies have had to house new departments in buildings going up nearby.

Many large corporations have had to terminate 20-year commitments after about five years and sign new 20-year leases elsewhere. Most of these companies had existed quite comfortably in the same building for the previous 20 years.

Mushrooming Growth

The beginnings of the growth trend began to show—slowly at first—in New York during the middle and late forties. Pressures began to build up for new office buildings as more companies expanded and new ones opened administrative headquarters in New York. As a result, pio-

neering for efficient, successful office planning and design methods was achieved on Manhattan Island. Now, a dozen years later, other cities feeling the same needs are benefiting from the experience of New York architects, builders, and real estate operators.

Their influence can be seen now in some of the finest contemporary design and planning of office buildings in Los Angeles, San Francisco, Chicago, Dallas, Houston, Denver, and Montreal. In the heart of these cities, building interiors are much the same as in New York in terms of layout, design, and furnishing, evincing the same trends towards smaller, more compact executive offices, more conference space, better-looking furniture, more use of color, greater utilization of inside space, more efficient lighting, and allowances for automation equipment.

Plant Expansion

Administrative planning in buildings outside the downtown areas of these cities, however, has taken the form of plant expansion. In New York, growth has been reflected by more and more office buildings, but in outlying areas, the housing of additional administrative personnel in a wing or second story of an existing plant has been more economical. Often, complete new plant buildings have been constructed with careful consideration to administrative quarters.

Plant expansion to accommodate administration has been the solution for many companies, but many more have found it advisable either to build their own separate administrative headquarters buildings or to lease space in offices downtown. When companies reach a certain size, their commercial "centers of gravity" often undergo changes that require their headquarters to be in the heart of an urban area. And so the construction boom is on in almost every major city.

Local Variations

Although basic problems of office planning, layout, and design are essentially the same everywhere, there are a few variations—depending on climate, location, and local customs.

Climate affects mechanical facilities and the elements of building design connected with air conditioning. Architects in southern areas must design and plan for heavier air-conditioning loads, and the interior arrangement of ducts, exterior sun shades, draperies, and other elements may be oriented accordingly.

A company with offices in a suburban area often must provide employee service facilities for dining, emergency medical care, and recreation. Whether or not—or to what extent—a company builds these into its quarters depends on the cost, the extent of competition for competent personnel, and the degree of isolation.

Office comfort may be important compensation for routine, less interesting work or a lower wage. One company in a Texas suburb has gardens, a swimming pool, and a country club setting. City offices cannot offer these benefits, so they settle for dining rooms that serve nourishing lunches for less than cost, tasteful offices, careful control of acous-

tics, adequate lighting, and lounges for relaxation and recreation.

Paradoxically, in New York, which has more restaurants per capita than almost any other city in the country, companies have been acutely aware of the need for employee cafeterias.

Cafeterias prevent lunch-hour congestion and permit employees to relax while they eat—and to report back to the job on time. If other factors are equal, a secretary will work for the company with its own cafeteria rather than for one without eating facilities.

Health and Recreation

Medical services are also important. Plans for projects of any size—urban or suburban—now include some form of medical facility. Some facilities are minimum, with part-time doctors, although some larger companies boast a full-time medical staff and equipment that any small hospital would be proud to own. Management is allocating more money in this area on the principle that healthy employees are happier, more productive ones.

The same kind of reasoning is behind the enlightened attitude toward recreational facilities. In downtown buildings, companies provide game rooms, libraries, lounges, and facilities for employee hobby clubs. In outlying areas with in-plant offices, companies have even installed bowling alleys and swimming pools.

As competition for employees in an area becomes progressively keener, companies often vie with each other to create more and more elaborate employee "attractions." This has already been overdone in some areas—and management must limit the "frills" when planning these important service facilities.

Interior Design

What about the future in office design? The next decade will see interior office layout simplified, particularly with regard to partitions, since a more disciplined plan is necessitated by larger spans in buildings. The results: greater flexibility in such utilities as electrical work, lighting, and air conditioning.

Because of air conditioning and the outside heat load from sunlight, there will be a trend toward less glass—at least, less of the all-ribbon type of window. The glass area may increase vertically so that it is almost continuous from floor to ceiling, but there will be some solid area in between—for cutting down the heat load, increasing flexibility within the space, improving vertical distribution for utility risers, and so forth.

The impact of office automation on office environment in the next decade will cause greater care and thought to be given to equipment and to the areas housing it. They will no longer be simply "work areas," but rather showplaces that management will proudly display to visitors, and their color, lighting, and finishes will be attractive to a degree that is not considered today. In connection with such planning, a knowledge of the latest thinking and development of methods and equipment is necessary—as well as some discretion in decision-making. Top management should hold changes to those that are truly necessary to meet new conditions. ◆

Seven Traps in Job Evaluation

By S. Vincent Wilking
Condensed from Management Methods

YOU MAY BE overpaying some people in your company (thus adding to costs) and underpaying others (thus running the risk of losing them).

The answer to both problems is sound job evaluation. Like all tools, however, job evaluation is dangerous if thoughtlessly used. And its use is marked with traps all along the way—traps that may snare you even after your job-evaluation program has been in operation for some time.

Here are the pitfalls inherent in each of the seven basic steps in any job-evaluation procedure, and ways to avoid them:

Job Content

1. *Determine the actual content of each job, and write a description of its duties and responsibilities.* You obviously don't need a separate description for the job of every employee—so you lump similar jobs under one title and description. But this can be carried to an extreme.

For example, a Pennsylvania screening manufacturer with 300 office employees lumped 55 clerical positions under one title. To do this, the job description had to be written quite broadly. Result: The high end of the rate range wasn't high enough for the skilled clerks, but was too high for those with routine jobs. The company, therefore, was unable to hold the skilled clerks and was overpaying ordinary clerks by $18,000 a year.

Had the description writer been more perceptive, he would have described two or more classifications of clerks at different salary ranges.

Evaluation Points

2. *Determine each job's relative place in the hierarchy of jobs by as-*

signing evaluation points to each element that goes into the job. There are several approaches to this step, and many plans fail here. One approach, for example, establishes nine factors that are common to all jobs: special knowledge, experience, scope and complexity, initiative, creativeness, contacts, working conditions, judgment, and supervision.

Basically, this job-evaluation procedure consists of measuring each job against a point-value "yardstick" for each of these factors, then comparing the total point values of the jobs. But some yardsticks are short—suitable only for measuring jobs where the highest-paid job is usually worth no more than two or three times as much as the lowest. Other yardsticks are much longer and more suitable for the salary situation where the top job may be worth more than ten times as much as the lowest.

Glaring Inequities

A midwestern firm in the metalworking industry installed a job-evaluation plan some years ago. It covered jobs up to $5,000 per year. Since then, the plan was stretched to include $12,000-per-year jobs.

The result was glaring inequities in salaries: The plan was simply not designed to perform this enlarged task. The rating scale worked well at the lower salary level for which it was designed, but it petered out when projected to include the higher jobs. It didn't provide the necessary additional points needed to discriminate between jobs at the upper levels. Department heads objected that jobs under their jurisdiction were being paid salaries too close to their own.

The solution in this case was to develop an entirely new plan covering the complete range of positions. Adding a second plan to the existing one (an all-too-frequent solution) would only have created more problems in salary relationships up the line.

Compare Results

3. *Check preliminary evaluations by comparing results, job by job, between departments and within occupational groups.* Who's going to do this job? There's certainly a lot of work to be done, and the temptation is to divide it among many managers. An argument heard in favor of this approach: Participation by rather large numbers of management will help sell the plan to those involved—and save money.

When a New Jersey insurance company tried this approach, there was enthusiastic participation by all concerned—and by some not really concerned. The company set up a hierarchy of review committees at each level of the organization to check preliminary ratings for successive reviewing steps and to work out any inequities. The committee members were trained in the principles of job evaluation, given a little practice in applying the theory they had been subjected to in class, and then plunged into their work—on company time, of course. Each committee member (frequently a department head or supervisor) felt obliged to stick up for his own people's jobs.

There was a lot of wrangling, compromising, and, eventually, distortion of the plan, because committee members lacked objectivity. In addition, the do-it-yourself approach racked up a bill of $75,000 for executive time

that was spent in committee meetings.

4. *Compare what you are paying with what others are paying for similar work.* Danger: The key word here is "similar." Even a typist in your company may not be comparable to a typist across the street. Does she type letters or statistical reports? Must she also be able to take machine dictation or transcribe occasionally? What are your standards of quality? These differences affect the dollar value of the jobs.

Job Content Counts

It's important to know that you're comparing payment on jobs that are truly similar. The usual published survey data (such as that put out by Chambers of Commerce or industry associations) and the usual mail surveys are distinctly inadequate as a basis for developing accurate comparative data. It's too easy for participants in these surveys to make comparisons on title only—and your Tab Equipment Operator, who runs only a sorter and collator, may be compared with XYZ Company's Tab Equipment Operator, who not only runs all tabulating equipment but also programs the work.

There is only one way of obtaining area and industry rates with any assurance of true job comparability: Carefully select a limited number of companies, discuss job content with them in detail, and gather data on jobs with really comparable duties. This, of course, takes time, but the area trend line developed from the data is top management's basis for deciding on percentage salary increases. Many companies could afford to hire 15 or 20 more people with what they throw away annually by depending on "cheap" survey data and inaccurate determination of what area and industry practice really is.

Salary Trend Lines

5. *Develop wage or salary trend lines and appropriate job groupings from which rate ranges can be established.* This involves dovetailing your internal evaluations with the comparable data from outside sources. Deciding how competitive you want your salaries to be is usually a top management decision, and wise employers usually decide to adopt a salary structure at or slightly above the average prevailing level.

The personnel officer of one state government surveyed the rates paid by public and private employers for his selection of representative jobs. The results indicated that the state should add about $12 million to its current annual payroll of over $140 million. But to check the validity of this recommendation, the jobs selected for the comparative survey were plotted on a chart to show the relationship between job value (evaluated points) and salaries paid. The industrial trend line drawn from the data didn't match the state's trend line because the survey sample was not representative of the state's structure. After the selection of survey jobs was corrected, the recommended increase was cut to $10½ million, saving the state $1½ million.

Over half of the do-it-yourself job-evaluation plans in current use fail in this respect. The trend line of the jobs chosen to compare with the outside doesn't match the all-job trend line within the company. This, in

effect, is like comparing apples and oranges. As a result, recommended salary adjustments are either too high or too low.

Determining Rate Ranges

6. Determine the proper rate ranges for each job classification. There are several danger areas here: your salary ranges can be too wide, too narrow, too numerous, or too few.

A firm whose ranges are too wide (i.e., too much spread between minimum and maximum salaries in a given range) or a firm with too few ranges will have either starting rates that are too low to attract competent employees or top rates that are too high for the value of the work performed—and both of these defects may be present.

When the ranges are too narrow or too numerous, opposite defects will appear: Starting rates higher than necessary, or top rates too low to keep good people.

This, of course, raises questions: How wide is too wide? How narrow is too narrow? There are no fixed rules to apply, but if you have trouble recruiting or retaining employees even though the average rates paid in your salary structure are generally in line with or above those of competing employers, you probably have salary range difficulties.

Here are some rough guides: If your maximum salaries in a range are more than 35 percent above your minimums (except in the case of top management positions), they are probably too wide. If they are less than 25 per cent above, they are probably too narrow. The number of salary ranges in the structure should always be dependent on the number and type of positions covered: e.g., messenger to department head, messenger to division head, messenger to president.

7. Keep the plan up to date. Whether you get or lose full long-term value for the effort and expense that goes into establishing a good salary plan depends on how you maintain it—it can't keep current and reliable by itself.

Testing the Plan

Here are tests of a properly maintained salary plan:

- Are new descriptions promptly and accurately prepared for new jobs? Are descriptions revised to take into account significant changes in job content? Is there a regular program of review to insure that no changes in job content are missed?
- Are job evaluations reviewed to see if any factors are increased or decreased by changes in job content? Is there a person or committee to which an employee or department head can appeal if he feels an evaluation is inaccurate?
- Has final authority for approving new or revised evaluations been fixed? Does the process take too much of the time of the wrong people?
- Are comparative salary surveys conducted at least annually? Is job content really compared in these surveys?
- Is the selection of representative jobs reviewed for each survey? Are proper techniques used in drawing trend lines?
- Has the rate range structure become outmoded? Is it meeting company needs? Does it reflect changes in area and industry practice? ◆

Living with White-Collar Unions

By Charles E. Ginder

Condensed from Office Executive

How SUCCESSFUL have unions been in organizing clerical workers? What is management doing to lessen the attraction of a union in the office? What changes—and what restrictions—take place when an office does become unionized?

To find the answers to these questions, the National Office Management Association recently conducted a study among 2,002 companies employing nearly 500,000 people. Here are some of NOMA's findings.

To Join or Not to Join

Of all the offices surveyed, 94 per cent were not unionized, while the remaining 6 per cent were unionized. Most of the non-union survey respondents suggested these reasons why their office employees would not join a union:

1. Employees would lose prestige and status.
2. Employer - employee relationships would suffer.
3. Office workers already receive benefits and pay increases equal to or more than those of union workers.
4. They oppose paying dues.
5. They fear strikes and lockouts.

When asked what *might* provoke white-collar workers to join a union, most of the respondents from the non-union companies listed unfair wage or salary administration as the primary reason. Other possible soft spots: inadequate fringe benefits compared with those of unionized workers, lack of firm promotion policies, and ill-informed or poorly trained supervisors.

What Companies Are Doing

What are companies doing to insure that their office employees' grievances, salaries, and fringe benefits are taken care of properly? Here is what the survey shows:

- Approximately 8 per cent of the respondents have a formal written plan for handling grievances in the office. Among companies that do not have a formal written plan, most ask supervisors to counsel the employees. Many companies hold periodic employee group meetings, and many ask personnel staff members to counsel office workers. Some use a suggestion plan or question box, and others use employee opinion polls.
- All the participating companies conduct a salary and fringe benefit review. About 52 per cent of the companies conduct it annually; 28 per cent conduct it semiannually, and 6 per cent, quarterly. The remaining companies use some other time schedule, like every 18 months or two years.

• About 54 per cent of the companies have a formal job evaluation and classification system for office employees. Many of the remaining companies have one under study or are developing one.

• About 50 per cent of the survey respondents provide their office employees with written management policies and principles.

• More than 50 per cent of the companies have some kind of training program to help office employees perform assigned tasks and to provide an opportunity to obtain promotions. But only 30 per cent of the respondents have a training program for office supervisors, and only 23 per cent have a formal promotion policy for office employees.

Organized Offices

Of the companies whose offices are unionized (6 per cent of the 2,002 survey respondents), half listed the office union as a closed shop; the other half have an open shop. For 43 per cent, the office union operates as a unit of a plant union; for the remainder, the office union operates independently.

How often is the union contract negotiated? For 32 per cent of the organized companies, it is negotiated annually; 32 per cent negotiate every two years; 28 per cent, every three years; 3 per cent, every 18 months; 2 per cent, in less than one year; and 3 per cent, every four years or more.

Aftermath of Unionization

Companies with unions were questioned on the effect of unionization on the operating efficiency of the office, management-employee relationships, and similar facets of the office situation. This is what the survey revealed:

• In 58 per cent of the companies, the union had not improved management-employee relations; 20 per cent noted improvement as a result of the office union; 22 per cent had no opinion one way or the other.

• Nearly 64 per cent of the companies reported that the over-all efficiency of the office has remained the same and that the union has had no effect on it. Some 22 per cent said that efficiency has decreased since the union was recognized, and 14 per cent indicated that it has increased.

• Following office unionization, the handling of discharges has been less satisfactory for 50 per cent of the companies; 43 per cent reported that it remained the same, and 7 per cent reported the handling of discharges has been more satisfactory.

• For 54 per cent, the union has not altered management's flexibility in making changes in the office (such as installing new equipment); 36 per cent reported that the union has altered this flexibility; 10 per cent reported no experience in this matter.

• Approximately 64 per cent of the respondents reported that the union has influenced promotion practices in the office (for example, emphasis put on seniority rather than ability); 31 per cent reported no union influence on promotion practices, while 5 per cent reported no related experience.

• Some 79 per cent of the companies reported that the union did not affect the number of office employees; 18 per cent indicated that the union, in effect, increased the

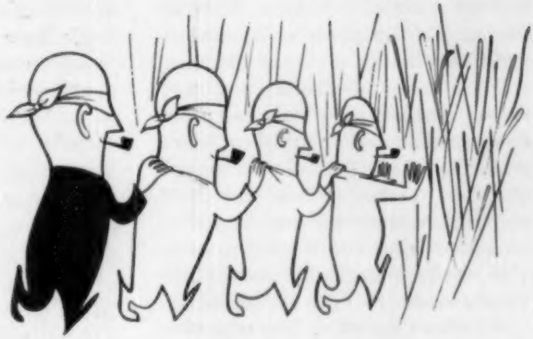
number, and 3 per cent reported that the union brought the number of office employees down.

Over all, the findings from the survey reveal that most companies are aware that the problem of unionization exists and that they are doing something about it. But are they doing enough? The findings indicate that a more concentrated effort on the part of management might produce better results. The low percentage of offices with supervisory training programs is surprising, since the supervisor in many companies is the most important link between management and the office employee. Similarly, the small percentage of respondents that have a formal written plan for handling grievances would seem to indicate another area where more improvement is necessary. ◆

Before You Automate

IF YOU'RE PLANNING TO AUTOMATE, these tips from *Dun's Review and Modern Industry* may help you:

- Figure a rough timetable for installation of the new equipment, and inform your employees at least six months or a year in advance.
- Estimate the workforce required under the new system. If the services of everybody presently employed will be required, say so immediately. Keep on saying it through every employee communications medium.
- If you expect shrinkage in your required workforce, then plan how you can use normal turnover and attrition to protect employees' jobs.
- If this means your workforce will dip below a safe minimum in advance of installation, then consider going into overtime, using temporary or part-time help, or subcontracting some of your work. And explain to your permanent employees what you're doing to protect their jobs.
- Consult your supervisors and run tests to determine which employees have the ability to handle the complex new equipment or can be trained for the new jobs.
- Discuss the new equipment with the employees affected. Show movies of it, run explanatory stories in employee publications, arrange meetings to explain and answer questions about how it will work and what it will mean to the employees. Emphasize how it will lower manufacturing costs, possibly enable the company to lower prices and turn out a better product, thus selling more goods and safeguarding jobs.
- Emphasize, too, how the new equipment will make jobs physically easier for the employees using it.
- Consider letting the employees help out in setting new wage rates, incentive rates, and production standards.
- If layoffs can't be avoided, help the displaced employees look for new jobs. Give them plenty of notice. If possible, offer special severance pay and reduce the retirement age in special cases of veteran employees with many years of loyal service. All this will reflect favorably on the morale of the remaining employees and in your relations with the community.



MOTIVATION RESEARCH:

Follow the Leader—Where?

By Theodore Levitt

Condensed from Harvard Business Review

UNCRITICAL RELIANCE on consumer and motivation research is becoming a threat to sales-building originality in advertising and product policy. And the source of the trouble is not so much the technicians who produce the research as the executives who use it. This is the inescapable conclusion one draws from some remarkable things that have been happening recently.

Nearly everyone now agrees that consumer research is a powerful management tool. It helps free the decision-maker from the terrible anxieties that beset earlier generations of executives who were forced to rely on hunches, a feel for the market, or just blind guessing. Decisions can now be made in a more factual and scientific context. Particularly in the case of motivation research (or M-R), management has gone into a tribal snake dance. Everyone is following everyone else, and the glee is unconfined.

Proofless Pudding

But how are executives using the research which is passed on to them? How good are the decisions they now make? One indication is what has happened in three industries where consumer and motivation research have made much progress.

Liquid Cleaners. On the heels of

Lestoil's remarkable success, three of the nation's soap giants have launched their own brands of liquid cleaners.

Their names, containers, and copy themes was carefully evaluated from every possible angle by the best talent available. And the advertising art and copy themes of each embody a powerful wonder-working suggesting muscular virility and magical potency. The result: a similarity that violates some elementary rules of marketing.

Menthol Cigarettes. The new mentholated cigarette is another greatly researched product and package. After many elaborately intricate consumer interviews and color preference tests, the researchers concluded in chorus that green suggests freshness, coolness, probably youthful idealism, and half a dozen other tranquilizing images. So all the new mentholated brands are wrapped in a froth of luxuriant flora, majestic waterfalls, or verdant holiday ribbon.

Compact Cars. The names of the compact cars have been especially carefully researched. The letters of the alphabet were thrown together to produce name combinations by the thousands. Enormous numbers of two-syllable and one-syllable words were gathered, invented, and tested.

Finally there emerged, in the fall of 1959, three remarkably similar but competing names—Valiant, Corvair, Falcon—each of six or seven letters, two syllables, each familiar to the language, each suggesting lightness, modernness, vitality, youthfulness, strength, flight, and romantic valor. Today, there is a second round of confusion, with the Dart, the Comet, the Invader, the Lancer, the Tempest, and the Rocket. With predictable continuity, all six are simple and familiar Anglo-Saxon words, all suggesting thrust, speed, strength, aggressive power, and irrepressible assertiveness.

Why?

It is a bitter irony that, at the height of twentieth-century inventiveness, of consumer-research brilliance, and of capitalist momentum, our marketing effort seems to be shrouded in a paralysis of the imagination. Why? Why are the policies of the most ardent users of consumer and motivation research so much alike? Why do their products, packages, and promotions have a dreary cookie-press sameness?

Science and Seductions

The answer is that management has failed to manage. It has been seduced by the claims of its researchers. But what is worse, management has cooperated in its own seduction. Commercial research's seeming power to liberate the executive from the anxieties of decison-making is tantalizing indeed. As a result, more and more executive action is postponed until research has spoken. Instead of facilitating decisions, research may, therefore, be contributing to acute managerial indecision or, at best, decisions that are expedient. When research says that two man-years of careful study "suggest" the need for a familiar two-syllable brand name which implies vitality, modernness, youthfulness, and so forth; if some elaborate research tells the executive that green fields and ice-capped coolness will make the customer feel kindly toward his product; if an awesome combination of Ph.D. and Phi

Beta Kappa talent tells him that "a bald Turkish eunuch wearing a single earring" and radiating masculine prowess is the proper symbol for an all-purpose liquid detergent—can the executive be blamed for submitting to such well-sponsored and self-assured advice?

Management's Function

One reason management has become particularly susceptible to the seductions of science in recent years is that it has lost confidence in the legitimacy of its own function. The remarkable claims, capabilities, and accomplishments of science are in galloping ascendance. Many executives quake in the shadow of its complex mechanisms and strident self-confidence—even executives whose own academic training was in science. By comparison, the practice of management often seems to them a sloppy and slightly second-rate affair, although they always put on a convincing front of untroubled self-assurance.

If it is any consolation, the business executive should realize that the highest form of achievement is always art, never science, and that business leadership *is* an art worthy of his own respect and the public's plaudits. When executives forego that leadership—when easy formulas and scientific claims are accepted and employed without sufficient regard for the market conditions under which they will have to function—the senseless muddle that characterizes liquid cleaners, compact cars, and mentholated cigarettes is produced. Even if carefully controlled laboratory tests tell you that what is best for menthol cigarettes is green waterfalls beneath snowcapped mountains, the appropriate policy may be to *avoid* using these images if everybody else is using them. In marketing, sound strategy often consists not in surpassing what competitors are doing, but in doing what they are *not* doing.

The more responsible motivation researchers have carefully emphasized that knowledge of motivations does not by itself entail knowledge of the best appeals, and that the really effective researcher will act as a diagnostician and definer of the whole market and its problems, not just as a technician confining himself to the product or brand he is researching.

Judgment Is Needed

Knowledge of consumers' inner needs is not enough. The decision-making executive must use *all* the consumer research facts that are available. But he must use them creatively in combination with all that can be known and predicted about the actual environment of the selling-buying situation. The important consumer reaction is not what name and color he prefers when he is quizzed by a researcher in his living room or an isolation booth, but what name and color will be *most effective,* given the entire array of names and colors that are encountered in the advertising and point-of-purchase situation. Research findings still require executive action, in the form of judgment or of integration with all the other considerations that impinge on the market.

Every effort and every statement addresses itself to a customer. It does not matter whether it comes from a businessman, an artist, a preacher, or

a panhandler. If it does not penetrate the curtain of noise and distraction that surrounds the customer, it cannot reach him—no matter how willing the customer is to listen. If the message is not clear, distinctive, meaningful (not just in terms of the customer's personal needs and experiences, but also in relation to the competitive messages with which he is bombarded), then the message has not gotten through. It is management's unique and inescapable duty to see that it does. ♦

Worthy Cause—or Public Disservice?

EXECUTIVES are often called upon to serve as chairmen, officers, committee members, or solicitors in fund-raising campaigns for charitable, civic, health, welfare, and cultural programs. Acceptance of such an assignment is more than a personal matter: The person who lends his name or talents to nonessential or well-intentioned but ill-conceived causes may be doing a disservice to the entire community by helping to jeopardize the continued success of essential services.

Before participating in, or lending your name to, a public-appeal fund-raising program, get the answers to these questions, as suggested by Ed Rabbitt in the Owens-Illinois publication, *Personnel Newsnotes:*

- Is there a specific need for the program? Will the organization involved be duplicating the work of established agencies?
- Is the goal of the campaign realistic?
- Can you rely on the integrity of those conducting the campaign?
- Is there a professional promoter or fund-raising agency involved in the campaign? If so, what will be the cost of their services? (Most reliable fund-raising organizations will examine thoroughly the program objectives and situation and charge a flat fee, plus certain expenses, for their services. Some reputable fund raisers work on a percentage-of-funds-raised basis, but beware if the promoter's share is more than 25 or 30 per cent of the total funds received.)
- If the campaign is to be managed by the local agency staff, plus volunteers, will the cost of administrative overhead and fund-raising expenses be more than 20 per cent of the campaign goal? (It shouldn't be. The agency's financial report of its last campaign should indicate what percentage of its income dollar went for fund-raising and administration.)
- Will a proper accounting for all funds raised in the campaign be made public or placed open to public inspection?
- Would you be willing to have your friends contribute to the program solely on the strength of your personal endorsement of it?
- Can you, and will you, devote ample time to your assignment in the campaign to do the job properly and help insure judicious handling of the funds contributed to it?

U. S. Dollars Move Abroad

By John A. Conway

Condensed from Newsweek

RECENTLY, heavily guarded armored trucks trundled a sizable load of gold bricks from the U.S. Assay Office in New York to the nearby underground vaults of the Federal Reserve Bank. With it, the U.S. lost and foreigners gained $97 million of gold. At the same time, workers were building a $12.6 million Goodyear tire plant outside New Delhi, India.

The two incidents are related: together, they place the nation's monetary managers on the horns of a dilemma.

Long-Range Benefits

Without question, new foreign investments—an estimated $2 billion last year on top of $30 billion at the end of 1959—temporarily aggravate the payments problem. Equally without question, foreign investments redound to the long-range benefit of this country. They tap existing markets, create new ones, and turn a handsome profit. In 1959, U.S. companies brought back almost $1 billion more in profits than they spent overseas. During the 1950's, the National Foreign Trade Council reports, corporations took back $7.5 billion more than they spent abroad.

For U.S. industry, the long-range benefit clearly outweighs the short-range hurt. Despite the government's misgivings—it made no secret, for instance, of its unhappiness with Ford's offer to pay $366 million for full control of its English subsidiary—businessmen are pressing their foreign programs.

Planned Investment

That determination shows up in *Newsweek's* latest Survey of Manufacturers' Capital Appropriations for Foreign Operations. These dollar appropriations will soon be translated into concrete reality—such as Goodyear's India plant and Du Pont's half-ownership of a $9 million neoprene plant in Japan. During the next two years, General Motors will add $500 million worth of new plant and equipment to its $1.3 billion overseas operation. Arthur Denning, a down-under contact man in New York for New South Wales, figures that U.S. investment in Australia now tops $1 billion and reports that about 200 American firms are talking with prospective partners in his state alone. National Dairy wants to make a stock swap for 80 per cent of Canada's $36 million (sales) Dominion Dairies. Minnesota Mining is building a second plant in Düsseldorf to take advantage of Germany's "fantastic potential."

Even the staunchest holdouts are

getting into the act. In steel, for instance, the all-American industry front has cracked. Allegheny Ludlum has a half interest in a new $10 million plant in Belgium that is scheduled to pour its first steel late in 1962. Crucible Steel paid $2.4 million recently for a 75 per cent share of a small Italian mill and plans to double its capacity to 15,000 tons.

Return After Taxes

No one has to look far to see why. At home, a U.S. investor can expect about a 10 per cent return (after taxes) on his investment. In Europe's six-nation Common Market, according to the First National City Bank's calculators, he can look for 11 per cent. Around the world, the average runs close to 13 per cent. But the averages hide some genuine bonanzas. Examples: Direct investments in Great Britain (where the U.S. stake a year ago was close to $2.5 billion) earn a tidy 16 per cent. In the Middle East, the figures seem right out of *The Arabian Nights*—the $1.2 billion invested there in 1959 earned $591 million, a heady 48 per cent.

Businessmen can find other magic in foreign operations. Chicago's Automatic Canteen Co., with operations all over Western Europe, maintains its international headquarters in Switzerland, which levies a modest 8 per cent income tax. It gets credit for that 8 per cent on its U.S. tax returns, and doesn't have to fork over the remainder of Uncle Sam's 52 per cent take until the profits are brought to this country. "This enables you to have greater use of your capital for a longer time to build your organization," explains Norval B. Rader, Canteen International's president.

Countries hungry for new industries can make the tax picture even rosier. Vice President Marshall S. Leaf of Chicago's Leaf Brands (candies) cites the tax break as the main reason his firm put up its first overseas bubble-gum factory in Ireland. The Dublin government offered outright grants, long-term loans, and twelve blissful tax-free years.

Problem Areas

Local politics rate very high in evaluating any foreign venture. The foreign administration vice president for Sears, Roebuck—a company with $75 million invested abroad—ranks political stability first. So does M. P. Youker, international general manager for Purex (detergents, bleaches) in Los Angeles. Their caution is understandable: Both Sears and Purex lost out in Cuba.

Only after checking such items as political outlook, currency stability (devaluation can wreck an investment overnight), taxes, and repatriation of capital, Youker says, can you get down to such business fundamentals as the potential market and the competition.

Investors must also walk softly to avoid, or at least to compromise with, the world's growing economic nationalism. Recently, the Canadian government, in response to cries that the Americans were taking over the country, slapped new taxes on U.S. investments. The bite was considerable —more than a third of all U.S. capital abroad is in Canada—but the Canadians felt they had a case: 75 per cent of their automobile and rub-

ber manufacturing, for instance, is U.S.-owned.

At the other end of the world, Australians want to know why General Motors doesn't let them buy stock in its highly profitable GM-Holden's subsidiary (which earned $34 million on sales of $268 million in 1959). The basic reason, president John F. Gordon explained, is that GM is a worldwide operation and does not sell shares in its subsidiary. "An American can't buy a share of Chevrolet," an official in Detroit added, "so why should an Australian be allowed to buy a piece of Holden's?"

Partnership arrangements help avoid this sort of controversy and are gaining more followers by the day. In some cases, the trend is forced by local laws requiring that nationals share in an operation. Du Pont might have taken a larger share of the $9 million synthetic-rubber plant it is splitting with Japan's Showa Denka, but the "Ikeda doctrine" (named for Prime Minister Hayato Ikeda) limited them to 50 per cent.

Whatever the method employed, industry seems determined to get in on the huge new markets developing around the world. The targets are hard to resist—Europe's Common Market, for example, eventually will mean a Continental sales area as big, populous, and rapidly becoming as rich as the U.S. itself. Combined with lower costs overseas and the greater returns on investment, the lure of lands beyond the sea will keep Yankee dollars moving. ◆

The New World's Fair—Guides for Exhibitors

BASIC PLANS for the New York World's Fair, 1964-65, have been revealed. The fair, to be erected on the same Flushing Meadows Park site as New York's 1939-40 event, reports these plans in *Sales Management:*

• There will be two industrial exhibit areas: Industry section and Transportation section.

• Exhibit space rental for these sections will be $4 a year per square foot. Rental payment is to be made on the basis of 10 per cent with letter of intent to exhibit, 40 per cent when lease is signed, and 50 per cent when construction is started.

• Exhibitors must build their own temporary buildings, and must remove them at the end of the two-year fair.

• Building designs must be approved by the fair.

• Only 50 per cent of the lot leased by an exhibitor can be covered by building. The balance must be landscaped. Structures cannot be taller than 80 feet.

• In the industry section, no exhibitor may rent more than two acres, but an exhibitor in the Transportation section may use more, "within sound discretion of the Fair Corporation," depending on "the merits and educational value of each exhibit."

• Space will be allocated on the basis of earliest requests and okay of plans.

Your subcontractors are extensions of your own facilities—they should be chosen with care . . .

Guides to Better Subcontracting

By Leonard Sloane

Condensed from Purchasing

If your company gets a prime contract from government or industry, you'll often find that you need many subcontractors to help complete the job. But buying subcontracting is not a simple job. While it involves many of the same considerations that are a part of normal buying—such as quality, service, delivery, and price—placing subcontracting requires additional and specialized skills.

When you buy supplies or raw material from a vendor, you are usually purchasing a proprietary item that he has developed and manufactured. When you subcontract an item, on the other hand, you are asking another company to make a product or component to fit your specific purposes. You have the expert knowledge and usually supply the blueprints and purchase the required tooling. And you want to make sure that the subcontractors are competent to do the work.

Selecting Subcontractors

Here are some guides that will help you when you are selecting subcontractors:

1. Consult the Small Business Administration. Regional offices of the SBA are located throughout the country. These offices can provide accurate lists of small companies that are equipped to do the work you require. Other listings of subcontractors are available in various good industrial directories.

2. Study their facilities lists. A good subcontractor will have modern equipment in his plant and will be happy to provide you with a complete listing or a brochure describing his operations. A breakdown on the number and types of lathes, mills, presses, gear shapers, grinders, and special process equipment available can give you an accurate indication of a manufacturer's ability to produce what you need.

3. *Check financial ratings.* Once you've narrowed the list to a few potential subcontractors, get a Dun & Bradstreet report on them. You have to be certain that a company handling a small subcontract for you won't jeopardize the success of the entire project by going into bankruptcy.

4. *Visit the subcontractor's plant.* By now you're just about ready to pick out one or two companies to handle the job. But before you do, visit their plants. It may help you to take along someone from your purchasing, engineering, and accounting departments. Their trained eyes can help you learn a lot about a supplier. You might even want to give potential subcontractors an opportunity to work on some samples to check the quality of their work.

Negotiations

After you've selected the subcontractors to be placed on the approved list, you're ready to negotiate. Since the job is being performed to your specifications, you should have a good idea of what the correct cost is. This makes it easier to evaluate subcontractors' bids.

One company makes a detailed study of the cost breakdown on all major subcontracted items. The purchasing department first establishes the basic cost components of the item: material, labor, indirect operating expense, and any additional costs. To this basic manufacturing cost, it adds administrative and management expenses, costs for special tooling, special packing charges, and a fair markup. The result is a unit price that purchasing feels is reasonable and yet sufficient to give the subcontractor a fair profit. This is the price the buyers try to get.

What to Check

Companies that do a great deal of subcontracting should have an established procedure to guide the buyers on each project. For example, buyers handling subcontracting at one large metalworking firm use a check list that covers each required step in the process. Every stage is checked as it is completed, including the following points:

- Who supplies the material—contractor or subcontractor?
- What type of tooling is required?
- What type of packaging is needed?
- How much lead time will the subcontractor be allowed?

Buyers must also justify their actions if they did not obtain competitive bids or if they did not award the subcontract to the lowest bidder. While the buyers are permitted to use their judgment on these two points, they are asked to note their reasons so that there can be no question of collusion or favoritism.

Mutual Trust

Your relationship with a reputable subcontractor should be based on mutual trust. Explain to him how the item he is making will fit into your company's over-all product. Let him examine as many engineering diagrams and changes as you can without revealing any confidential information.

Every subcontractor you use is actually an extension of your own facilities. You should treat him accordingly. ♦

THE NEW LOOK IN

Plant Maintenance

By R. H. Wilcox

Condensed from Mill & Factory

In case you haven't noticed, plant maintenance has acquired a new look. The traditional association with monkey wrench and oilcan has given way to the recognition of the maintenance function as a prime aspect of the overall plant operation.

One big reason lies in our modern technology. As a result of the growth of numerical control, automation, direction of entire manufacturing cycles by computers, and similar developments, certain plants are spending more time and manpower on maintenance than they are on manufacturing.

The old ways are no longer good enough. The new ways are forcing management to make new decisions. Can maintenance be measured? If so, engineers have to set up the proper standards to gauge lubrication, construction, and repair of equipment. Will incentives make maintenance more effective? If so, programs must be established to achieve more and better work from the crew. Is it faster and cheaper to bring in maintenance from the outside? If so, then do it.

Developing Standards

Possibly the first step in taking a careful look at plant maintenance is to develop accurate gauges of the work. This means standard data must

be assembled for lubrication, repairs, inspection, and other maintenance jobs. Only with such data can management evaluate present staff efficiency, find out how much maintenance is costing, or get ready for future demands.

Maintenance *can* be measured, with methods ranging from punching simple maintenance jobs out on a time clock to assigning industrial engineers with stop watches to study complex jobs. Whether simple or complex, all jobs have movements and other qualities that can be analyzed, timed, and compared with standards.

Kinds of Incentive

Once you have the facts, you can set up an incentive program. What kinds are there? Maintenance incentive programs may be based on measurable data, the ratio between maintenance and manufacturing dollars, production efficiency, work load, efficiency of area maintained, or the ratio between operating hours and downtime.

The choice, of course, will depend on the particular situation. In general, however, any incentive plan not based on measurements introduces subjective evaluation, which can be costly when it is wrong.

How much incentive should be built in? Experience shows that a 1 per cent increase in incentive base wage for each 1 per cent increase in output is reasonable and feasible. Unless a worker can earn around 25 per cent above his base rate, incentives don't inspire him much. Another point to consider is the desirability of group incentives. Since much maintenance activity is teamwork, the group incentive can promote cooperative spirit.

Maintenance Training

At the rate mechanization and automation are proceeding, most maintenance plans are already out of date. The only way to fill present needs and prepare for the future is to set up a sound, detailed maintenance training program for supervisors and workers alike. Maintenance training involves educating new men plus upgrading the existing crew. As the trend toward pushbutton equipment with complicated controls and circuits continues, the maintenance force must be prepared to care for more sophisticated machines.

A maintenance training program should begin near the top. Check such things as department morale, safety, grievances, costs, turnover. When these are out of line, something's probably wrong with the supervision of the department. Problems will vary with each company, of course, but for most maintenance departments, the lacks will be in human relations, not in technical skills. To correct such deficiencies, a supervisory training program might cover:

- Organization of the company and the supervisor's role in the overall performance of the company's task.
- Management information essential to the supervisor: specifics on personnel policy, grievance handling, safety rules, overtime provisions, how to deal with the unions, etc.
- Supervisory techniques: how to plan work, how to give assignments, how to handle discipline matters, how

to instruct, how to develop attitudes among subordinates.

Employee Training

Course content for maintenance workers is usually limited to what the men need to do their work efficiently. This may include blueprint reading, mathematics, physics—all combined, of course, with on-the-job training. Visual aids, outside experts, or assistance from other firms with outstanding maintenance programs may be of help. Some model programs already exist at Maytag Co., Dow Chemical, Allegheny Ludlum Steel Corp., Whirlpool Corp., Monsanto Chemical, and the Procter & Gamble Co., among others. The U.S. Government Printing Office, Washington, D.C., has helpful source material, as do many publishers of technical books. There are also training films on maintenance which can be rented or borrowed.

Contract Maintenance

Many plants, lacking their own skilled crews, farm out their maintenance. There are several sound reasons:

1. Some maintenance work comes up so seldom that keeping specialists around "just in case" becomes a luxury. Building repairs and ground maintenance, for example, are required only now and then. In addition, both of these require special equipment. The contractor buys and cares for it, freeing plant space and money for more productive work.

2. Some maintenance—like overhauling boilers, repairing floors, or refurbishing light systems—is scheduled so infrequently that it should be accorded only part-time attention, through contractors.

3. Certain maintenance jobs may be cheaper under contract. Even if outside labor costs are higher than inside labor costs, money might be saved elsewhere in the plant by assigning temporarily idle, skilled employees to other jobs.

4. Contract maintenance is often faster. Despite the most efficient preventive maintenance program possible, an emergency can occur. An outside contractor can usually be held to the timely completion of his work.

What are some typical maintenance tasks handled by contractors? According to a survey of several hundred plants of all types, the jobs most commonly farmed out are lighting (both fluorescent and incandescent systems), manufacturing machines, plant cleaning, materials-handling equipment, service equipment, and plant grounds. ♦

Metals for the Moon

THE ARMY CORPS OF ENGINEERS is planning to set up a simulated moon environment, reports *Iron Age*. The idea is to see what type of construction would be needed for building there. The Corps is paying particular attention to which types of metals can best withstand adverse moon conditions—particularly the quick changes of heat and cold.

The Search for *Scientific* Ad Budgeting

Condensed from Printers' Ink

ADVERTISING MANAGERS are on the brink of the biggest revolution in ad budgeting since the invention of double-entry accounting. Its aim: to make ad budgeting an exact science in order to budget advertising for maximum profits.

Under the impetus of 1960's tightening profit squeeze, practically every possible way to streamline budget development and make it more efficient is being explored. These include:

- Starting work on budgets earlier in the fiscal year.
- Making long-range projections of advertising.
- Stepping up local marketing studies and test campaigns.
- Tightening up controls over budgeting.
- Using the "marketing program" approach.
- Using mathematical programing.

According to a recent *Printers' Ink* survey of over 300 advertising executives, most companies get their ad budget development under way sometime during the third quarter. Approval comes in the fourth quarter, with the company president usually wielding the greatest influence over approval.

Among the innovators is Max Banzhaf, director of advertising, promotion, and public relations for Armstrong Cork Co. Banzhaf now starts preparing his budget around the first of July, tries to get tentative approval by September—long before sales forecasts are made. Final approval does not come until the overall company budget is approved by the board of directors in December. Changes in the advertising appropriation may be made then, but in the meantime the advertising department is able to go ahead with some assurance.

Budgeting for Ad Objectives

Armstrong Cork has departed considerably from the traditional practice of budgeting advertising as a percentage of projected sales. Banzhaf not only considers advertising as an investment, but makes it his first responsibility to maximize return on

that investment. A big part of his job, he says, is discouraging advertising on items that don't show considerable profit potential.

Eastman Kodak Co. now prepares its ad budget almost entirely on the basis of advertising objectives rather than projected sales. The basic procedure is:

1. Establish advertising objectives.
2. Create campaigns.
3. Compute how much they cost.
4. Relate costs of advertising to the other factors in the marketing mix: sales, research, new-product development, etc.

One Company's Procedure

Eastman's advertising department designs its campaigns in February—eleven months before budget approval is due. Their recommendations on copy, layouts, and media are reviewed with W. B. Potter (Kodak vice president and director of advertising), Dexter Johnson (advertising manager), and Edwin Grauel (assistant ad manager). Then the ad staff goes to work writing copy, making rough layouts, filling in details of the plans, and costing. In June, a second review takes place with the three top advertising executives, and some adjustments in the projected budget may be made.

Between this meeting and September, details of each individual campaign are worked out. A third review takes place in mid-September; final costing is done and the budget is aligned with others in the "marketing program." Major adjustments may be made at this stage.

Next the budget is presented to the management committee. Then it's approved, rejected, or modified, and sent to president William S. Vaughn for final approval. "During this whole procedure, we're working against an over-all economic forecast by our statistical department, to make sure ad plans don't get out of hand," Johnson explained. "But budgeting is not related at any stage to a percentage of sales."

Measuring Ad Effectiveness

Companies in virtually all fields are searching for ways to measure advertising effectiveness more exactly. The goal: to determine the effectiveness so precisely that a company can say how much a given ad increment will increase sales of a particular product, or in a particular market area. The next step would be to relate advertising expenditures directly to share of market and to net profits. With this aim in mind, most major consumer goods companies have stepped up their market research programs, and are experimenting with different levels of advertising in local test markets in an attempt to work out a closer correlation between advertising and sales. Data-processing equipment makes this one of the most promising fields of budget research.

An Exact Science?

Can budgeting ever be reduced to an exact science? With modern electronic equipment, the question is not as far-fetched as it sounds. Manufacturers in the big consumer fields of food, cosmetics, and drugs have evolved highly sophisticated formulas for determining ad budgets for their products. Most of these involve three basic factors:

• Unit sales—usually some combination of past, present, and projected.

• Profits.

• The constant refinements that come about as a result of market testing.

In industries such as autos and major appliances, some makers have developed a year-to-year leveling-out formula, so that ad expenditures will fluctuate less violently than sales.

Computing Expenditures

The mathematical programers are trying to carry this scientific evolution even further, with the help of their electronic machines. IBM's Robert Weinberg claims that he can determine how much a company must spend on advertising in order to achieve a given share of market, and also what share-of-market level will get maximum profits for a company. Although the figures are admittedly only estimates and are subject to factors hard to predict with precision, the method opens up a whole new area of information.

Weinberg's method is to devise a series of mathematical equations that relate each of the marketing factors to one another. By tabulating a company's recent history and the history of its competition, he can show how much a certain change in ad budget had on a company's sales, and on its competitors' sales. Projecting these figures into the future, he can show how much a future change in ad budget will affect sales and share of market. If competition also changes its ad budgets, a different situation will exist, of course. But this, too, can be projected. An electronic computer can run through thousands of such possible situations in a few minutes, and pick out the most profitable one.

This is the point where skepticism sets in for most advertising executives. Nevertheless, the fact remains that some companies are actively interested in mathematical programing, and are pushing hard to perfect its uses—not as a substitute for creative advertising and ad budgeting, but as part of an over-all drive to increase the effectiveness of each advertising dollar. ◆

What Executives Read

EXECUTIVES don't often read for pleasure, and when they do they are likely to feel a little guilty. That's the conclusion of Peter E. Siegle, consultant psychologist to American Photocopy Equipment Co., after interviewing 250 executives about their reading habits.

Siegle, notes *Business Week,* found that businessmen read a lot of material, newspapers, and magazines, but average only four books a year. Usually they read for information, for help with a hobby, or for self-improvement.

Senior executives do more pleasure reading than junior ones (and less reading for self-improvement), but the senior executives read not so much for fun as they do to relax so they can work harder the next day. The books that executives read tend to be those recommended by their bosses, wives, and friends, or something they picked up at random.

What to do about

The Indispensable Man

By E. H. Bellows

Condensed from Nation's Business

HE'S THE FELLOW who knows everything. He has all the answers—usually in detail. Nobody else knows them, because he confides in no one beneath him. He believes he can do the job faster and better.

Who is he? He's the indispensable man—one of business' biggest blocks to maximum performance. It's management's job to find him, to understand why he is more of a harm than a help, and to reform him—or discharge him.

Indispensable men are not monsters. They are typically hard workers, people who are fully competent in their fields—sometimes unusually so. The rub is that they delegate too little responsibility to people under them. This stunts the growth of their subordinates and deprives the organization of a vitally needed supply of able and promotable personnel. The indispensable man also blocks his own promotion because he develops no one who can move up to his job. When the indispensable man does delegate, he usually goes through the form but holds back the substance.

Typically, the indispensable man's personal relationships on the job are poor. His splendid isolation breeds an impatience toward subordinates that is revealed in many subtle and some obvious ways. Peremptory correction

of a colleague in an open meeting usually heads the indictment. But this is matched by scorn on all occasions for ill-formed ideas or inadequate proposals.

The indispensable man thus succeeds in creating a permanent level of mediocrity around himself. Clearly, no one can take over his major responsibilities, since no one has ever fully shared any of them.

Liberating Energies

In the long run, an executive can succeed only if he liberates the creative energies of others. Today's business must mobilize and draw upon all its resources, especially the ingenuity, intelligence, and enthusiasm of its people.

One manufacturer never puts a man into a management job until he is convinced that the man is absolutely ready. On the surface, this seems a proper position for an executive to take. For this industrialist, however, someone's "being ready" means that he has fully demonstrated his competence to do that particular job before he gets the assignment. This is an impossible task: A man cannot do a job until he is in it and actually has the responsibility. Furthermore, most people rise to responsibility once it is given to them. The loss of their enthusiasm and resourcefulness is the real penalty for tolerating the indispensable man.

There is still another drawback. The indispensable industrialist must also personally accept the responsbility and perform the tasks that at least another half dozen people ought to be doing. The fact that he may be better qualified and a better practitioner does not make up for the total effect that could have been created by these managers under his guidance and with his occasional participation in the really major items.

The Mother-Hen Approach

Other drains on the organization's resources result from the mother-hen approach. Notable among these are the delayed hopes and the frustrations of those who are only partially participating. Sense of accomplishment is one of the greatest rewards that any person in a working or artistic situation can achieve. By limiting the opportunities of his people to achieve it, the indispensable man is robbing both himself and his subordinates. They lose the satisfaction of a job with genuine responsibility, and he loses the maximum effort of his group.

How to Remedy the Problem

The indispensable man is likely to be an unapproachable man. The same characteristics which make him operate as he does tend to isolate him from most positive relationships. The problem is how to reach his mind and understanding.

The first step is to make him feel secure. Paradoxically, the typical indispensable man is psychologically quite insecure. One of the reasons he surrounds himself with relatively mediocre people, or at least with people who lack the courage to challenge him, is to maintain his relative position of pre-eminence. His drive to know everything in great detail and to control everything is similarly based. Thus, the first task in reaching him is to make clear that you do not want to challenge his position and his

valuable contributions to the group but only to make him more effective—to prepare him for more responsibility through sharing the responsibility he already has. An instructive parallel can be found: Each manager stands on the shoulders of the managers beneath him, and if he keeps these managers depressed and ineffective, then he, too, stays low. If he raises them to the highest possible degree, he stands that much higher himself.

Coaching the indispensable man to share his responsibility means first making an inventory of the things he does personally; dividing them into manageable and homogeneous units; then delegating them to appropriate subordinates. Such delegation should include due dates for the completion of the work or standards of accomplishment, so that the indispensable man can see in a concrete fashion that the task will in fact be done and—probably to his surprise—done well.

"To See Ourselves . . ."

The second step in this coaching effort is to help him see himself as others see him. This isn't easy, and not many people like to do it, but there are outside resources that sometimes can be used profitably. Among them are some management training programs and seminars designed for this purpose. If possible, the indispensable man should attend such a session, for two reasons. First, the session is valuable in itself. Second, he will find that the organization hasn't collapsed during his absence.

About three years ago an eastern railroad had several of its top people, including a line superintendent, in New York at such a seminar. During this time there was a derailment on the line. The immediate reaction of the line supervisor can easily be imagined, but he was under firm instructions to stay in the seminar no matter what happened, and he did.

To his surprise, and subsequently to his real pleasure, he discovered that the assistant superintendent handled the incident with dispatch and got the trains back on the track and on schedule. Now the indispensable man could in fact look forward to promotion, because circumstances had forced him to recognize that someone beneath him was fully competent.

When Efforts Fail

These efforts to get the indispensable man to see himself as a leader, not as an indispensable man—to see himself as a person who can multiply his effectiveness if he doesn't try to do everything himself—sometimes fail. What do you do then?

In such a case, there is no choice but to tell the man he *is* dispensable—that you don't need him. If you fail to make this hard decision, you are then making another decision that is more disastrous: You are agreeing to block the creative talents of the group as a whole.

In business, the indispensable man can remain so only at terrific cost to others—cost in the effective use of creative talent, cost in frustration and deep annoyance, and cost in actual profits—because no one man can exploit every opportunity open to business. In summary, either cure the indispensable man—or get rid of him. ♦

PROFESSORS IN INDUSTRY:

Conducting a Management Audit

By Chester C. Civin and J. Calvin Callaghan

Condensed from Advanced Management

LAST YEAR, a manager in an engineering concern puzzled a number of people by employing a speech professor for the summer. This was a radical departure from the accepted company policy of hiring professors of technical subjects to perform purely technical operations in a summer work program. Associates questioned how men representing two such unrelated fields as speech and engineering could possibly do anything that was mutually rewarding.

The answer came when the manager confessed that his real goal was an independent audit. Eyebrows raised further when he blandly stated —with the professor's concurrence —that the commodity he wished to buy, more than anything else, was not the professor's knowledge but his ignorance. What he really wanted, the manager hastened to explain, was an audit of his particular engineering operation that would be independent of the preconceptions and prejudgments that sometimes arise from experience.

Professors in Industry

Employing college professors in industry during the summer is by no means new. More than 30 years ago, at least one company initiated a summer-professor program, stemming from its experience with earlier short summer conferences. In the summer of 1959, the College-Business Exchange Program, through fellowships by the Foundation for Economic Education, permitted 64 professors to scrutinize the management philosophy, policies, and procedures of 41 cooperating industrial firms, at a stipend of $800 for six weeks, plus travel reimbursement. Since the start of the program over twelve years ago, 845 professors from 354 colleges have studied 169 firms.

How Industry Benefits

Whether industry gets its money's worth from the summer professor is directly dependent on the task it assigns him. All too frequently, the academician is put to work in the narrow band of his own specialization, constricting him rather than expanding him, limiting his potential contribution to the company as well as the company's contribution to him.

The one thing a manager needs to fear is overfamiliarity with his own operation. An outfielder may well

see what an infielder is too near to see. An outsider may conclude his scrutiny with an opinion that the operation can in no way be improved. This is a finding of profound import, for which a manager should gladly pay. Much more likely, however, the outsider will uncover several—albeit minor—ways of strengthening the operation. This, too, should hearten the manager. For years, financial officers have recognized the utility of an independent audit. Why haven't more engineering, marketing, manufacturing, and personnel managers used this concept?

Conducting an Audit

The way to conduct an audit by a summer professor is simple—and the simpler it is kept, the better. Let the professor browse. Let him ask questions. When he does, answer them—even though they are, as inevitably they will be at the outset, somewhat ludicrous.

Let the professor fabricate his own plan for his audit. Let him define his own "need to know." Whenever he feels like actually working instead of observing, let him do it—but don't tell him when. He'll know, or soon find out, when a particular activity will teach him something.

Mutual Independence

There are, of course, specifications for conducting an independent audit successfully. The manager's organization must make clear, by manner and by method, that every finding of the audit will be listened to until it is fully understood. He must demonstrate the courage both to accept and to reject findings after examining them.

And, since the professor is being paid for independence, he should supply it. He must exhibit the courage to speak his mind after appropriate investigation and reflection, must not be embarrassed when a suggestion generated out of his ignorance proves to be foolish. He must focus on *reporting* rather than *influencing*. He must be at once easy and difficult to convince.

Both manager and professor need the fortitude to make mistakes. Each must trust the other. Some say that such managers and such professors are rare. The answer is: If they are sought, they will be found. They should be sought. ◆

Trading Stamps for Suggestions

MONEY HAS LOST ITS APPEAL in this era of trading stamps, reports *Factory*. Employees at American Hardware Corporation's Kwikset plant, Anaheim, California, would rather have green stamps than greenbacks. Proof of the pudding: Output of ideas has doubled since the company first offered trading stamps as rewards for employee suggestions.

For each idea submitted, an employee receives 30 trading stamps redeemable at local stores. If the idea is adopted, the employee gets a cash award, plus additional stamps—100 for each dollar of the award.

BRIEF SUMMARIES

of other timely articles

GENERAL

14 IMPORTANT RATIOS IN 36 MANUFACTURING LINES. By Richard Sanzo and Roy A. Foulke. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N. Y.), December, 1960. 75 cents. Since aggregate dollar earnings after taxes for manufacturers were at an all-time peak in 1959, it is not surprising to find improvement in the ratio of median profits-to-sales margins in most of the 36 manufacturing lines studied for that year. Other 1959 ratios show relatively low median ranges for net profits to net sales and for net profits to tangible net worth; a lengthening of collection periods; continuing favorable relationships of inventory and debt-to-worth, with few instances of imbalance; and a tendency toward high current and total debts in some of the soft goods industries.

ARE STOCK OPTIONS GETTING OUT OF HAND? By Erwin N. Griswold. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), November-December, 1960. Reprints $1.00. Raising questions of corporate management and corporate morality in connection with the company policy of granting stock options, the author urges that the policy be thoughtfully and thoroughly reconsidered. In particular, he raises questions about who gets stock options, who exercises them, the amount of benefit that is thus obtained without current tax (and often without any tax at all), the relation of the benefit to the person's other income and wealth, and the actual amount of "incentive" provided by the stock option.

WHAT TO DO WHEN GOVERNMENT CONTRACTS ARE CANCELLED. By Charles M. Colt. *Management Methods* (22 West Putnam Avenue, Greenwich, Conn.), December, 1960. Reprints 50 cents. Because terminated contracts are almost inevitable in government work, companies with a government contract should plan now how to handle termination claims promptly, legally, and inexpensively, says the author, who gives a case history of one company faced with this situation. He emphasizes the necessity of immediate action by each department and the importance of setting up procedures before a crisis, since —although the government is fair about paying for provable and allowable costs, usually plus some profit—it doesn't take the initiative in speeding up the process.

ICA "HIRES" TOP BRASS TO TEACH ABROAD. *Business Week* (330 West 42 Street, New York 36, N. Y.), December 31, 1960. 50 cents. The International Cooperation Administration, an organization run by the State Department, has been quietly conducting a program of international management development, according to this article, although ICA doesn't recognize, either in the organization or in its records, the difference between management development and technical training. In 1960 alone, some 200 U. S. executives went out under its auspices to share their experience and know-how with more than 5,000 businessmen in the less developed countries of Europe, Asia, and Latin America. Problems connected with the training of foreign managers are dis-

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cussed, and activities of U. S. executives on temporary assignment abroad are traced.

WHERE TO LOCATE YOUR PLANT. By Maurice Fulton. *American Machinist/Metalworking Manufacturing* (330 West 42 Street, New York 36, N. Y.), December 12, 1960. Reprints 25 cents. Basic rules are presented in this article to help companies determine plant locations during the scramble in the next decade for new locations to meet increasing production capacity demands. It tells what to look for in the way of space requirements, manpower, utility requirements, distribution pattern, and vendor locations and gives two lists of specifications: one for the firm that would find location in a smaller town more profitable, one for the firm best suited to a metropolitan area. A comparison chart shows estimated cost for a typical metalworking company (present location versus recommended communities).

MARKETING

NEW YORK: A MARKET FOR EVERYONE? *Printers' Ink* (635 Madison Avenue, New York 22, N. Y.), November 25, 1960. 25 cents. An extensive analysis of the nation's No. 1 marketing complex, this special report tells how advertisers are successfully reaching New York consumers and gives the latest trends and developments in advertising (agencies, print media, radio-TV, and business papers), sales promotion, research, and public relations. Case histories of two advertisers who tried to crack the New market show how and why one failed while the other succeeded, and several cartoons by a creative director of advertising provide amusing sidelights on that field.

MARKETING AND PRODUCTS ISSUE. *Industrial Distribution* (330 West 42 Street, New York 36, N. Y.) Mid-December, 1960. $1.00. This special issue is composed of four main sections: (1) a technical sales guide that compiles sales engineering technical data for the distributor salesman; (2) a general classified list of general industrial equipment, tools, and supplies, as well as the names and locations of manufacturers of these products; (3) a tradename index that lists trade names employed by manufacturers of general industrial equipment, tools, and supplies, along with the products to which they refer and the names of their manufacturers; and (4) an alphabetical listing of names and addresses for manufacturers whose products are shown in the classified list.

SIMULATION—TOOL FOR BETTER DISTRIBUTION. By Harvey N. Shycon and Richard B. Maffei. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), November-December, 1960. Reprints $1.00. Despite some limitations, simulation can be effectively used to solve many business problems, according to the authors, who give a step-by-step description of how the H. J. Heinz Company applied simulation to solve its distribution problems. The resulting information on customer location and needs, and factory location, and production characteristics enabled Heinz to develop a distribution system that yielded the lowest over-all costs and, at the same time, insured a continuing high standard of service to customers.

ANNUAL DESIGN REVIEW, 1960. *Industrial Design* (18 East 50 Street, New York 22, N. Y.), December, 1960. $1.50. Prepared for industrial designers and executives who are concerned with product planning, design development, and marketing, this annual design issue

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contains numerous photographs showing consumer and nonconsumer products, technological advances, and package designs. With each photograph, a text explains outstanding features of the item shown and gives the names of the manufacturer and the designer. The consumer products were remarkable for their unobtrusiveness; in the comparatively few instances where industrial design was used in nonconsumer products, it was used well; technological developments were along the line of improvements rather than inventions; and, in package design, there is an increasing use of the "lifelike" halftone.

INDUSTRIAL RELATIONS

POWER UP YOUR WAGE INCENTIVE PLAN. By Ralph H. Bavier. *Mill & Factory* (205 East 42 Street, New York 17, N. Y.), January, 1961. $1.00. Because of problems connected with incorporating general wage increases in an incentive calculation rate, many companies leave them out altogether, thereby reducing the effectiveness of their wage incentive plans. The author explains a method of incorporating economic adjustments in an incentive system without increasing the cost to the company or reducing job earnings. The method provides for a proportionate increase in earnings for increased productivity and establishes a means of adding the full amount of economic adjustment to the base rate so that supplementary pay policies, guarantees, waiting time, and off-standard pay are not affected.

WHO'S GOING TO TELL THE BOSS? *Industrial Relations News* (230 West 41 Street, New York 36, N. Y.), December, 1960. $1.00. The trouble with management-employee communications today is that most of the flow is downward, with only a trickle heading in the other direction, according to this report, which offers suggestions for remedying the situation. Management must be willing to listen to what employees have to say and then to follow up on it, in order to make the most of these suggestions: (1) hold regular department meetings; (2) tap the company grapevine; (3) hold progress reviews or exit reviews; (4) set up an "open door" policy; (5) make an attitude survey; and (6) install a suggestion system.

SENIORITY. *Factory* (330 West 42 Street, New York 36, N. Y.), November, 1960. Reprints 35 cents. Some managements consider even the mildest seniority clause in a labor contract an affront because of the inference that employees are to be judged and rewarded, to a major degree, on simple length of time on the job rather than ability and attitude. But management can benefit from the proper handling of situations involving seniority, according to this article, which gives tips for solving or avoiding seniority problems in 12 areas: probationary periods, changing work groups, quits and discharges, layoffs, management newcomers, fringe benefits, vacations, disciplinary layoffs, transfers, job displacement, job bidding, and shift preference.

FOREIGN OPERATIONS

HOW TO UNDERSTAND THE EUROPEAN MANAGER. By F. Newton Parks. *Management Methods* (22 West Putnam Avenue, Greenwich, Conn.), November, 1960. Reprints 50 cents. The European manager will be a formidable partner—or opponent—in the new "one world" of business, and U. S. businessmen will

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have to understand him to deal with him, says the author, who gives a picture of the European manager in terms of his compensation, job titles, work customs, attitudes, and strengths and weaknesses. Although the European manager operates differently from the American manager—he is, for instance, still fundamentally autocratic and individualistic—he appears to be moving slowly toward American-style scientific management.

FOREIGN SALES SPURT MAY SLOW NEXT YEAR. *Business Week* (330 West 42 Street, New York 36, N. Y.), December 31, 1960. 50 cents. Merchandising sales abroad last year rose over $3 billion to an estimated total of $19.4 billion and, while many U. S. exporters and a fair number of economists and government officials predict another healthy climb in 1961, dissenters think the U. S. will do well to keep foreign sales at the present level. Analyzed by geographical area and by commodities, export figures for 1960 are projected against economic trends abroad to get an estimate of 1961 figures. For the answer to whether exports will expand or contract, this article points to Western Europe, which accounted for about half the expansion in sales of five leading exports last year.

PLANNING FOR PROFITS IN WORLD BUSINESS. By Raphael Hodgson and Michael Michaelis. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), November - December, 1960. What trends lie ahead in exports and imports? Can U. S. business prosper under low tariffs? Should American companies team up with foreign firms? Are management changes necessary for international operations? Answers to these questions emerge from the authors' appraisal of five economic and political conditions at home and abroad that affect the outcome of American business plans and provide management with new opportunities overseas. One important answer: U. S. profit interests lie in tariff concessions abroad.

PRODUCTION

TIMING DEVICES FOR AUTOMATIC CONTROL. By John C. Ponstingl. *Automation* (Penton Building, Cleveland 13, Ohio), November, 1960. $1.00. Essential components in many automatic control operations, timing devices are used throughout industry to delay, sequence, or program equipment actions and, if properly applied, can help achieve safe and consistent operating conditions, better products, and lower production costs. To assist designers and users in selecting and applying these components, the author not only presents a survey of basic types of timers together with their characteristics, operating principles, and limitations, but also discusses typical applications and gives reasons for the selection of particular timing devices.

MAINTENANCE PAINTING. By Kenneth Tator. *Factory* (330 West 42 Street, New York 36, N. Y.), December, 1960. Reprints 35 cents. Selection of the right coating for a paint job is a relatively untapped cost-reduction area in industry's annual paint bill of over $2 billion, according to this article, which bases the value of a paint job on the cost per square foot per year—not the cost per gallon of paint. Five fundamental steps for making the selection are discussed: (1) study the exposure; (2) choose the right coating; (3) prepare the surface properly; (4) apply the coating properly; and (5) reseal paint failures promptly. A chart rates nine types of coating (bitumen, silicones, etc.) on ten factors (weathering, applied cost, etc.).

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Professional Investor Relations

(*Continued from page* 12)

Some institutions tend to sell their shares at any time they become uneasy about the short-term outlook for a company; others sell only when they doubt a company's long-term performance possibilities. Still others will make a decision to sell but not execute it while the company is in serious trouble of a noninvestment nature, so as not to depress the price of the stock unfairly to other holders.

A Supplementary Program

Personal contact with individual analysts is the most valuable relationship to establish, but it is not enough to constitute a complete program of professional investor relations, especially since many analysts are not able to call on the company in person on a regular basis. At General Electric, therefore, we have a supplementary program to deal with analysts' societies. This program includes providing various societies in different cities with speakers on particular areas of interest, and cooperating in planning plant tours or other meetings in connection with analysts' conventions or special meetings that are held near one of our major facilities. In the last few years, some specialized groups of analysts who follow a specific industry have been established in some cities, and these groups provide an opportunity to tell the company's story in greater depth and detail than is possible at the larger meetings.

REACHING POTENTIAL INVESTORS

The second public—or market—of professional investor relations consists of potential investors in the company. To reach them, we must work with the many groups connected with the financial community, helping them to become a much broader and more effective communications medium to many millions of investors and savers.

This market has two components. The first includes the roughly 12.5 million people who own stock in American corporations at present, only a small percentage of whom own any one company's stock. The second consists of the many millions of people who have the income and wealth to own stock, but who as yet do not.

Only to the extent that a company has continuing numbers of

potential shareowners who may be interested in buying shares can it count on having sound marketability, liquidity, and fair pricing for its shares. And only a steadily increasing flow of new shareowners will enable all individual companies to meet their capital requirements and fulfill the needs of our growing economy in future years.

Despite the sharp increase in the ownership of common stocks by institutional investors, individuals still hold the largest proportion of common stocks of all corporations. The Securities and Exchange Commission has estimated that, at the end of 1954, individuals held shares worth $189.5 billion—75 per cent of the $252 billion of common stocks issued publicly.

A growing volume of investments is being made by persons of modest incomes. A New York Stock Exchange study of new investors in 1959 found that 73 per cent of new investors had family incomes of less than $10,000—and about half of these new-investor families had incomes of less than $6,900. This evidence of a shift in the ownership of American business from the few to the many indicates the importance of reaching the millions of people who should be investors tomorrow.

The Vital Link

Because almost all transfers of stock ownership take place through the medium of brokerage firms, brokers are the most vital communications link between industry and investors. But so far, at least, they have been poor communicators. Businessmen must increase their efforts to cooperate with brokers and stock exchanges in selling the idea that investments in corporate securities are sound investments in the future of America.

At General Electric, our professional investor relations program involves working with stock exchanges and brokerage firms—encouraging and stimulating them to aggressively promote broader share ownership by making potential shareowners better informed. Although some approaches have brought intriguing and encouraging results, they have been small-scale pilot operations, and the best roads have yet to be carved out. As an indication of some of the areas in which cooperation can be effective, however, here are some specific ways in which we have attempted to promote broader share ownership:

- Participating for four years in the Burdick-Rowland brokerage window-display program.
- Participating in Merrill Lynch's Investors' Fair three years ago.
- Participating in 1959 and again in 1960 as a co-exhibitor with Merrill Lynch in their Grand Central Terminal Investors' Information Center.
- Providing advertisements and television commercials on the nature, extent, and meaning of share ownership in General Electric.
- Inaugurating how-to-invest courses for employees in several of our plant locations.
- Supplying employees with information about the Stock Exchange's Monthly Investment Plan.
- Continuing our old Savings and Stock Bonus Plan and developing a new Employee Savings and Security Program. This new program, now almost two years old, has the potential, over time, to encourage and stimulate many thousands of our employees to become fairly substantial shareowners in the company.

THE IMAGE OF BUSINESS

In recent years, businessmen have increasingly realized that it is not necessarily enough to do right by the various groups that participate in each of our companies—the shareowners, employees, suppliers, and customers. We must also communicate the good we do, so everyone will realize the contributions that business is making to society. The result has been that most companies have begun to try to improve their image in the eyes of the public.

Shareowners of business should be our most valuable allies in this effort. But roadblocks have, in effect, been thrown up by the financial community. In the course of our dealings with analysts, each of us should try to give them a short "commercial" on some things the financial community can and should do—in its own interest, in the interest of its customers, and in the interest of business.

First, the financial community can and should be able to increase direct share ownership and broaden it to millions more people over the next ten years.

Second, the financial community should undertake to communi-

cate with its customers, who are the hidden owners of our stock, some of the important economic issues that they should be aware of in order to protect their own interests—such issues as unfair taxes on share ownership, inflation, the need for shareowners to become politically aware and active, and other subjects that influence their future and the growth of our competitive enterprise economy.

We can communicate directly with our shareholders, but many of our indirect owners never get a chance to see or read these messages. The banks, brokers, trust companies, insurance companies, mutual funds, and others whose interests in the future of our business system are just as great as ours must be encouraged to help do this job of selling not only shares, but much more significantly, the idea that business is a vital and beneficial force in our society. ♦

Are You Tomorrow-Minded?

(*Continued from page* 17)

Marketing. "If foreign competition doubled tomorrow, what could we do about it?"

"What characteristics would a new product have to possess to make a strong impact on tomorrow's customers?"

"What distribution changes would I have to create to exploit markets reflecting tomorrow's redistribution of population?"

Production. "If we were to start in this business from scratch, without our present equipment or methods, what kind of production setup could we devise?"

"What quality control techniques would we have to inaugurate if quality demands by our customers were greatly tightened?"

"Could we diversify our product line, using present equipment only?"

To be meaningful and helpful, the hypothetical questions you raise must have two characteristics—relevancy and constructiveness. The specific nature of your business should suggest the kind of hypothetical questions that are relevant for you. For example, if you're in the silverware business, where public taste and the cultural climate puts a premium on new styles and new use of materials, then your hypothetical questions should be addressed to these changing factors. On the other hand, if you are in the business of manufacturing electronic equipment, the changing technology of your field suggests that area for your hypothetical questions.

Constructiveness is equally important. Having asked yourself appropriate questions, the answers you supply should represent your thinking brought to a useful stage. It does little good to say, "I was afraid that might happen," if your plans to cope with the development never left the nebulous stage.

3. *Use Existing "Models"*

Growth is a phenomenon common to our planet; it occurs in the corporation as well as in nature. Since growth is freely observable, the pattern that will develop for your company tomorrow may already be found in another situation today.

The growth pattern of other industries may yield information

about what is ahead for you. If, for example, you are in the food-processing business, some or all of your production may be turned out by the batch method. But, as you know, many other industries have converted from batch to continuous processing. Perhaps in the pharmaceutical or chemical industry you will see a preview of your own future production methods, and you will learn the refinements of continuous processing that will help to expedite the conversion in your own company.

Models for the shape of things to come for you and your company are not limited to a few functions; observation of other companies may yield new insights about many areas of your company's activities. Management-development needs, for example, tend to be unique for each company, but by now there is sufficient experience with the weak and strong points of various training methods and their relevance to specific needs to enable you to translate the activities of other companies into terms that are appropriate to your own changing requirements.

4. Develop a Management "DEW" Line

Just as our military has a Distant Early Warning system to spot threatening activity by enemy forces, you can develop your own personal DEW line to tip you off to impending developments.

Exposing yourself to new and different tools and processes, as exhibited in trade shows in your own and allied fields, helps to satisfy this need. Encouraging your subordinates to keep abreast of the field in this respect can provide a double payoff: By getting them to view and report on progress and developments in your own and other industries, you widen their horizons as well as reducing the amount of time that you yourself must spend in such pursuits.

In addition to trade shows, trade journals and business publications can act as radar screens through which you can utilize the sensitivity of editors and researchers to help you spot the first faint signs of approaching change.

A recent survey of executive readership indicates that most executives are very well aware of the necessity for keeping abreast of developments. Of 19 "reasons for reading trade journals" that executives gave a team of researchers recently, the four ranked highest were the need to know more about "new equipment and

materials," "changing business conditions," "engineering and technical trends," and "new engineering and production techniques."

5. Develop a "Sense of History"

A "sense of history"—a sense of where we've been and where we're going—is invaluable to an executive working in today's kaleidoscopic business world. And there are ways to stimulate this quality in yourself.

Do your thinking for tomorrow in the light of a review of past experience. To get a better view of next year, go through the events of the past twelve months, concentrating on events that concern a particular aspect of your business. The historical perspective you get by going step-by-step through the past can then be turned toward the future. The result will be sharper insights—sharper awareness of what's been happening and where it's leading.

This procedure trains you to consider events as connected chains, rather than as the jumble of happenings that the past sometimes resembles. Once you have isolated a number of events—having to do with, say, popular taste in clothing, or leisure-time activities—in a chain of causes and effects, you are in a stronger position to continue the chain into the future, with your thinking unencumbered by a mass of attendant but extraneous circumstances.

6. Learn to Influence Tomorrow

This is a major key to mastery of tomorrow-mindedness. Few of us can create basic trends, but we can do something to put us a jump ahead of tomorrow.

First of all, try to sense "what will go." Professional style experts are frequently outstanding in this ability. They are sensitive to what it is the public is ready for, and they know when it's time for a change. This sensitivity to the public mood tells them in what areas, when, and by what means to attempt something new. If people are uneasy, they're ready for information and reassurance. If they are bored, they need a change of interest or pace. If they are champing at the bit, a dose of action is what is called for. To some extent, these needs can be met by any company, either by introducing new products or services or by advertising and promoting appropriate aspects of existing ones.

Whenever possible, test for tomorrow. Learning future needs, interests, and situations need not be entirely intuitive. Companies frequently resort to tests to determine the shape of tomorrow. For example, the Standard Oil Company of Indiana ran an experiment to see what would happen to costs and profits when one or two large service stations replaced a cluster of small ones in urban areas. When the results are in, they'll be in a better position to know "what will go" tomorrow.

BETWEEN YOU AND TOMORROW

Of course, whenever the subject of change is introduced into almost any management context, the psychological implications require consideration. Managers are very well aware of the problem of resistance to change at the employee level; they are perhaps less aware of resistance to change in managerial echelons.

To executives, for whom looking ahead is a job skill, change should become a matter of course. Yet some of us don't develop tomorrow-mindedness because we prefer not to. We fear tomorrow, because we have doubts about our ability to cope with the new and the unfamiliar.

But the tomorrow-minded manager is much less likely to be caught off guard. He is aware of the trends that are shaping up, he is alert to the advantages of adding up today's two and two to give us tomorrow's four. When an executive is thus armed, the psychological barrier is likely to dissipate, and tomorrow turns out to be even brighter than today. ◆

Make Return on Investment Work

(*Continued from page* 24)

investment is the target for all operations and projects in the Westinghouse Electric Corp.) Obviously, the same 20 per cent in the example can be obtained by simply dividing the net profit by the investment, but this procedure omits two important factors: the significance of cost and expenses in relation to sales volume, and the significance of the level of investment in relation to sales volume. These two variables must be kept under constant study if management is to know what is happening within operations and where effort needs to be concentrated. For these reasons, Du Pont and other companies highlight the relationship by including these factors in the determination of total return on investment.

Many companies in the past have determined the profitability of their operations in terms of percentage of profit on sales alone. This usually proves to be an inadequate yardstick, for it overlooks some important factors determining profitability. The profitability of assets employed can be improved in four ways:

- By increasing dollar sales through higher prices.
- By increasing dollar sales through more volume.
- By increasing costs and expenses.
- By reducing the amount of investment through improvement in inventory levels, more rapid collection of accounts receivable, putting excess cash and its equivalent to productive use, and economic control of additions to fixed capital.

It is for these reasons that Phelps Dodge Corporation and others of national standing shifted from the use of profit rate on sales to the use of return on investment for internal control.

AN ADEQUATE RETURN

Using the return-on-investment approach, a company can analyze managerial performance by segregating company data to make return-on-investment studies by divisions, by products, by plants, and so on, to search out the weak and the strong—bearing in mind that the return-on-investment yardstick is valid only to the point of profit responsibility.

An adequate return on investment varies among different products

and industries, depending on the risks involved, capital requirements, ease of entry, types of operations, and other factors. For instance, at General Electric the return-on-investment concept is viewed as follows:

> Profitability measurement is concerned with formulating a common index of performance of management effectiveness—the profit return on total assets employed—but it is not concerned with developing common standards of performance. For example, rate of return on investment is an index common to all business, but the standard in this index might be 10 per cent for one product, 20 per cent for another, and 30 per cent for a third product.

Standards of profit performance in terms of return on investment should be based on several factors: past performance, financial studies of competition, and the seasoned judgment and experience of executive personnel. At the outset of a return-on-investment program, historical experience serves as a basis for establishing short-term goals of product performance. For example, a satisfactory return of a prior year may be selected as the base, and product performance judged against this standard. For new products and strong products, however, performance standards should be based on an uptrend of past returns. Recent product performance is useful only for setting short-term standards, which should become an integral part of profit budget projections.

Setting long-range goals requires competitive analysis and management judgment. The financial analysis of competitors is of limited use for product and even divisional standards, since the financial statements of major competitors usually lack specific data on such areas. Nevertheless, competitive studies can serve as guideposts in testing some divisional standards, if not those for individual products.

ADOPTING THE CONCEPT

Companies that have adopted the return-on-investment concept for management control, including such firms as the General Foods Corporation and the H. J. Heinz Company, have found that certain procedures are helpful in instituting the change.

About six months prior to the formal adoption of the return-on-investment yardstick, an educational and orientation program should be developed to insure that the theory is completely understood and

"The responsible manager must understand that his performance will be measured by his success in attaining the established goals—and that his compensation will be commensurate with his performance . . ."

• • •

will be implemented by staff, divisional, and profit-center management, as well as by sales, production, and engineering managers. At such time, the responsibility for profit should be spelled out and assigned to specific managers, each of whom must be advised of the capital employed in his area of responsibility, the level of return on investment that will be regarded as satisfactory for the present, and the goal toward which his operations are to be directed. The responsible manager must understand that his performance will be measured by his success in attaining the established goals—and that his compensation will be commensurate with his performance.

An important part of the new management approach will be setting goals for investment return, both short and long range, by company units, products, and plants. After an evaluation of past performance and future potential, reasonable goals should be set by the chief executive, with the agreement of the respective profit managers.

Because of the many products in decentralized companies, approaches to improving return on investment may necessarily differ. As a guide for management strategy, all products can be classified under three categories: (1) those earning a relatively high return, (2) those earning a modest return, and (3) those earning an unsatisfactory return or showing a loss.

INCREASING PROFITABILITY

Naturally, the objective in dealing with products of the first group is to play to strength—to increase the share of business in these profitable activities by striving to increase sales volume through special sales effort, advertising and promotion, and, where the prod-

ucts can be sold, investment for increased productive capacity. Intensive research and analysis may develop new uses and markets for these products or promote the development of companion products or items with similar characteristics that could serve the same or similar markets.

Items in Group 2 should be studied to seek ways by which they might be moved into the more profitable Group 1 through some combination of the following approaches:

1. Cost reduction
2. Sales pressure for increased volume
3. Higher sales prices
4. Quality considerations
5. Reduction in capital employed through reducing the inventory of finished goods, goods in process, and raw materials; simplification of product lines; etc.
6. Elimination of the least profitable items, especially loss items, if any, within the product line.

Any product or product line in Group 3 is a drag on the company, since it represents capital and effort that do not provide an adequate return to insure future strength, stability, and growth. Therefore, all products in Group 3 should be kept under close scrutiny in an attempt to achieve as promptly as possible either a satisfactory profit return on capital employed or elimination of the product or line.

A BASIC TOOL

The return-on-investment measurement should become the basic working tool in planning for the best results possible in the firm. All other tools and controls—such as those provided in production and inventory scheduling, engineering, accounting, purchasing, and sales promotion—should be designed to improve the return on investment. The return-on-investment approach is usually successful when a deep interest is maintained by top management and communicated to all levels of profit-center management. The chief executive should hold semiannual meetings with his general managers to review the results achieved by each company unit and its major products and outline plans for the short- and the long-range future.

Experience has proven that when the concept of the return on investment becomes the guiding principle of the business, when this

mode of thinking permeates all company organization levels, management potential reaches a new high and product operations respond with superior performance.

Many leading multidivisional and multiproduct companies, bent on stable growth, are convinced that the use of the return-on-investment yardstick for product activities is the only way in which management can reach consistently sound decisions and measure its effectiveness in achieving an adequate return on the resources invested in the business. ◆

"We'll have to pull this job with only one car—the boss has slashed our budget."

Book Notes

(Please order books directly from publishers)

GENERAL

ARSENIC AND RED TAPE. By Edmund G. Love. Harcourt, Brace and Company, 750 Third Avenue, New York 17, N. Y., 1960. 175 pages. $3.75. The author of *Subways Are for Sleeping* and *War Is a Private Affair* takes a caustic look at Bureaucracy as exemplified by the mysterious ways of a number of bureaucrats he has known in the worlds of government and business.

SOME THEORIES OF ORGANIZATION. Edited by Albert H. Rubenstein and Chadwick J. Haberstroh. Richard D. Irwin, Inc., 1818 Ridge Road, Homewood, Ill., 1960. 492 pages. $10.60. This compilation of 32 essays is an attempt to integrate the scientific studies of organization (particularly of business organization) contributed by a number of scholarly disciplines. Emphasizing the process of research rather than organization theory itself, it undertakes to show the achievements of research, its current directions, and its possible uses.

THE ART OF PERSUASIVE TALKING. By Lynn Surles and W. A. Stanbury, Jr. McGraw-Hill Book Company, Inc., 330 West 42 St., New York 36, N. Y., 1960. 283 pages. $4.95. This guide to effective informal talking presents techniques applicable to any number of common business situations. Among the topics discussed are how to get people interested in your ideas, how to talk well with insufficient preparation, how to turn disagreement into agreement, and how to overcome common handicaps in talking. A concluding chapter tells how to handle 29 common talking situations—giving an order, issuing a reprimand, spiking a rumor, and the like.

HUMANISTIC EDUCATION FOR BUSINESS EXECUTIVES: *An Essay in General Education*. By Morse Peckham. University of Pennsylvania Press, 3436 Walnut Street, Philadelphia 4, Pa., 1960. 149 pages. $4.50. An essay written in 1953, when The Bell Telephone Company of Pennsylvania and the University of Pennsylvania were considering the installation of a program that subsequently became the celebrated Institute of Humanistic Studies for Executives. It was this essay, in which Dr. Peckham set forth the aims and principles of the proposed experiment, that resulted in the decision to put the program into effect.

MANAGERIAL DECISION-MAKING. By R. W. Morell. The Bruce Publishing Company, 400 North Broadway, Milwaukee 1, Wis., 1960. 201 pages. $6.00. Designed not only for businessmen at all levels who want to improve their own decision-making or to learn something about the decision-making process, but also for use in courses and training programs, this book explains the nature and pattern of decision-making and analyzes its tools. Twelve case studies are included.

SAMPLE DESIGN IN BUSINESS RESEARCH. By W. Edwards Deming. John Wiley & Sons, Inc., 440 Fourth Avenue, New York 16, N. Y., 1960. 517 pages. $12.00. Written from the viewpoint of the theoretical statistician in industry, this text is intended for managers in general as well as for professional statisticians and students of statistics. It explains the responsibilities of the statistician in planning a survey and outlining the theory of sampling, discusses the standards of statistical practice, and presents new methods of sampling and new concepts and operational definitions. While emphasizing the statistician's need for a comprehensive knowledge of theory, it covers a wide variety of applications and offers methods that achieve measurably accurate results with a minimum of complex computation.

BUSINESS ADMINISTRATION. (Second Edition.) By Morris E. Hurley. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1960. 489 pages. $7.95. This introductory text-and-casebook, formerly published as *Elements of Business Administration*, has been revised to reflect major changes in the world of business and to give increased emphasis both to organization and management and to business policy. It has three underlying themes: change and progress in the economy, administration as a forward-looking attitude, and the leadership role of managers in human organizations.

LINEAR PROGRAMMING AND THE THEORY OF THE FIRM. By Kenneth E. Boulding and W. Allen Spivey. The Macmillan Company, 60 Fifth Avenue, New York 11, N. Y., 1960. 227 pages. $8.00. Selected papers from a seminar sponsored by the Ford Foundation, at which a group of economists considered the significance of linear programing for such fields as capital budgeting, managerial strategy, economic stabilization, and economic planning.

COST REDUCTION AND PROFIT IMPROVEMENT—*A Way of Life*. Machinery and Allied Products Institute, 1200 Eighteenth Street, N.W., Washington 6, D. C., 1960. 73 pages. Single copies, $2.00. This pamphlet, based on a panel discussion in which 14 top executives in capital-goods manufacturing participated, includes papers on manufacturing methods, installation of modern production equipment, marketing and distribution, reduction of product costs, and so forth.

GETTING AND HOLDING YOUR EXECUTIVE POSITION. By Leon Davis Eldot. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1960. 294 pages. $4.95. The first half of this book is an exploration of the complex relation between the corporation and the executive, with particular emphasis on problems of human relations and the difficulties confronting the executive who must make decisions and take action on the basis of information that is often confused and subjective. The second half is a handbook of techniques for being interviewed, writing resumés, finding and approaching prospective employers, and the like.

PERSUASION: *How Opinions and Attitudes Are Changed*. By Herbert I. Abelson. Springer Publishing Company, Inc., 44 East 23 St., New York 10, N. Y., 1959. 118 pages. $3.75. The author, who is chief psychologist of the Opinion Research Corporation, deals with such topics as how to present issues, the influence of groups, the persistence of opinion change, and the audience as individuals.

MANAGERIAL SKILLS FOR SUPERVISORS. By Glenn Gardiner *et al.* Elliott Service Company, Mount Vernon, N. Y., 1960. 142 pages. $3.95. This self-help book deals with 12 skills, including managing time, planning, decision-making, communication, talking effectively, judging people, and exercising authority. For company training programs, the book can be supplemented with the *Managerial Skills Development Manual,* a loose-leaf booklet containing a discussion plan for each chapter.

THE COST OF FREEDOM: *A New Look at Capitalism*. By Henry C. Wallich. Harper & Brothers, 49 East 33 Street, New York 16, N. Y., 1960. 178 pages. $3.75. Professor Wallich, a member of the President's Council of Economic Advisers, examines the intellectual underpinnings of modern economic conservatism. He considers the basic conditions of a free economy in terms of three themes—freedom and government, initiative and incentives, and equality—and concludes that the chief value of such a system is freedom, not production. Freedom, however, comes only at the cost of some degree of economic inequality and of a more moderate rate of economic growth than forced-draft methods might yield.

J. K. LASSER'S BUSINESS MANAGEMENT HANDBOOK. (Second Edition.) Edited by Sydney Prerau. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N. Y., 1960. 842 pages. $12.50. This compendium of information and advice has been brought up to date with new material on laws regulating a business and its customers, fair trade practices, antitrust laws, retail price maintenance, and so on.

PUBLIC FINANCE AND THE GENERAL WELFARE. By Troy J. Cauley. Charles E. Merrill Books, Inc., 1300 Alum Creek Drive, Columbus 16, Ohio, 1960. 398 pages. $5.95. This text is primarily an attempt to integrate public finance with economics and secondarily an attempt to integrate economics with the general welfare. It examines such problems as the public debt's effect on money supply in relation to inflation; fiscal policy and the conflict between the objective of full employment and the maintenance of a stable price level; and the relation between the principles of distributing the tax burden and the purposes of taxation.

WEALTH AND THE COMMON MAN. By Frederick J. Grew. Philosophical Library, 15 East 40 Street, New York 16, N. Y., 1959. 184 pages. $3.75. The author's main contention is that the current disproportionate distribution of wealth that springs from technological advance is the chief threat to our social structure and the chief cause of our major economic cycles. In a demonstration he sets up a laboratory model of three simple adjoining communities and describes what happens when they are suddenly overwhelmed by automation.

THE CRISIS WE FACE: *Automation and the Cold War*. By George Steele and Paul Kircher. McGraw-Hill Book Company, Inc., 330 West 42 St., New York 36, N. Y., 1960. 220 pages. $4.95. The authors, a private computer consultant and a professor at the UCLA School of Business Administration, maintain that both our military and our economic activities are seriously endangered by the current crisis in automation. The crisis is not, as is commonly believed, too much automation too fast but inadequate automation—

the product of our overenthusiasm for speed, size, and complexity and our failure to develop the new approaches to leadership and organization that are demanded by automation. The theme of their book: "We shall have to make changes in our production systems, in our missiles, and in the management of both of these, if we are to survive and progress."

AUTOCRACY AND DEMOCRACY: *An Experimental Inquiry*. By Ralph K. White and Ronald O. Lippitt. Harper & Brothers, 49 East 33 Street, New York 16, N. Y., 1960. 330 pages. $6.00. A far-ranging report on two classic experiments, in which the authors, in collaboration with the late Kurt Lewin, studied the psychological dynamics of democratic, autocratic, and laissez-faire situations on groups of small children. In addition to reporting and interpreting their findings, the authors consider what light the studies throw on such basic questions as how satisfying and efficient democracy is and what can be done about its inefficiencies.

MARKETING

IDEA-TRACKING. By Frank Alexander Armstrong. Criterion Books, 6 West 57 Street, New York 19, N. Y., 1960. 146 pages. $4.95. The founder and president of Communications Affiliates, Inc., a McCann-Erickson subsidiary in charge of market research, public relations, and sales promotion activities, defines the creative process as a sequence of five steps: assessing the situation, defining the problem, using the subconscious, the idea-producing session, and selecting the best idea. He uses both his own experience and quotations from a number of thinkers and researchers to illustrate his points and applies his method to several hypothetical problems.

ADVERTISING: *Communications for Management*. By John W. Crawford. Allyn and Bacon, Inc., 150 Tremont Street, Boston 11, Mass., 1960. 388 pages. $7.50. Illustrated with many advertisements from various media, this book explains the uses and processes of advertising and tells something about the people who work in it. It includes chapters on the criteria and methods of advertising research, kinds of research and evaluation of copy, preparation of copy and graphics for advertising, how to use advertising media, and the relation of advertising to the marketing plan, sales promotion, publicity, and public-relations campaigns.

THE MORE YOU SHOW THE MORE YOU SELL. By L. Mercer Francisco. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1960. 287 pages. $7.50. Addressed to sales managers and directors, this is a comprehensive guide to the selection, creation, and use of such selling aids as demonstration devices, visual aids, flipcharts, filmstrips, and motion pictures. They are presented throughout not as gimmicks but as tools that can free the salesman for those operations that require personal selling. Two chapters deal with the use of films in communicating with the general public and with specific publics, and there is an appendix on the mechanics of effective presentations.

HOW INDUSTRY BUYS, *with Conclusions and Recommendations on Marketing to Industry*. By Donald H. Thain *et al.* Business Newspapers Association of Canada, 100 University Avenue, Toronto 1, Canada, 1959. 275 pages. $7.50. A report on the first detailed research study of the industrial purchasing-selling process ever made in North America. The material falls into

four major divisions: a review of the industrial purchasing process itself—from the company's recognition of a need for some product to its final selection of a supplier; an analysis of the people involved in the purchasing process, including chapters on business reading habits and on internal and external buying influences; conclusions and recommendations on product policy, channels of distribution, the use of personal selling, industrial advertising, and so forth; and finally, case reports on the 36 companies studied, relating how each made a major purchase, a medium purchase, and a routine purchase.

MARKETING RESEARCH: *Principles and Readings*. By Parker M. Holmes. South-Western Publishing Co., 5101 Madison Road, Cincinnati 27, Ohio, 1960. 646 pages. $7.50. This text is organized into two sections: consumer marketing research and industrial marketing research. Each chapter includes introductory material by the author and a number of articles amplifying his points, exploring new or controversial issues, and illustrating the practical application of marketing research to marketing problems.

PRICE DISCRIMINATION AND MARKETING MANAGEMENT. By Brian Dixon. Bureau of Business Research, School of Business Administration, The University of Michigan, Ann Arbor, Mich., 1960. 124 pages. $5.00. Mr. Dixon argues that differential pricing is sound business policy and that there is a conflict between logical maximizing price policy and the law. He analyzes some cases and decisions under the Robinson-Patman Act to illustrate the use of price discrimination and the extent of the conflict, and concludes with suggestions for businessmen faced with pricing problems and with comments on possible changes in price legislation and regulation.

MARKETING MANAGEMENT. (Revised Edition.) By D. Maynard Phelps and J. Howard Westing. Richard D. Irwin, Inc., 1818 Ridge Road, Homewood, Ill., 1960. 846 pages. $10.60. A thorough revision of the authors' *Sales Management: Policies and Procedures*, this volume retains the over-all organization of its predecessor. The section on product planning, however, has been divided into planning the basic product and product planning for promotion, and the material on management of the sales force has been reorganized and amplified. More attention has also been given to warranty and service, pricing and price policies, and manufacturer-distributor relations.

BASIC MARKETING: *A Managerial Approach*. By E. Jerome McCarthy. Richard D. Irwin, Inc., 1818 Ridge Road, Homewood, Ill., 1960. 770 pages. $10.60. This introductory text undertakes to explain not only the elements of modern marketing but also the job of the marketing manager and the world in which he operates. The mutual effects of marketing and the economic environment are extensively treated in the introductory and concluding chapters.

CONSUMER EXPECTATIONS, PLANS, AND PURCHASES: *A Progress Report*. (Occasional Paper 70.) By F. Thomas Juster. National Bureau of Economic Research, Inc., 261 Madison Avenue, New York 16, N. Y., 1959. 174 pages. $2.50. This monograph reports on the first phase of a study of the role of consumer intentions, expectations, and attitudes in the formation of spending decisions. On the basis of data derived from a number of surveys of large samples of the membership of Consumers Union, it studies the relationships between household intentions and purchases and a large number of financial, demographic, and expectational variables.

HOW TO MANAGE AND HELP SALESMEN. By Charles B. Roth. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1960. 159 pages. $4.95. A self-help guide emphasizing the human elements of the sales manager's job. Among the subjects are spotting and hiring salesmen, keeping them in constant training, planning and conducting profitable meetings, setting tasks, quotas, and compensation, and gauging and conquering markets.

HANDBOOK OF SUCCESSFUL SALES MEETINGS. By Bill N. Newman. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1960. 208 pages. $6.50. Among the major topics are planning sales meetings, building meetings around a central theme, using variety and showmanship, using audio-visual aids and speakers, making physical arrangements, and publicizing the meetings. Individual chapters deal with special kinds of meetings: group training sessions, recruiting meetings, conventions, and others.

Publications Received

(Please order directly from publishers)

GENERAL

ESTATE PLANNING: *A Guide to Insurance, Savings, and Investment*. By Philip J. Goldberg. Oceana Publications, Inc., 80 Fourth Avenue, New York 3, N.Y., 1960. 98 pages. $1.00.

HISTORICAL STATISTICS OF THE UNITED STATES: *Colonial Times to 1957*. U.S. Bureau of the Census (Superintendent of Documents, U.S. Government Printing Office, Washington 25, D. C.), 1960. 789 pages. $6.00.

A HISTORY OF THE DEPARTMENT STORE. By John William Ferry. The Macmillan Company, 60 Fifth Avenue, New York 11, N.Y., 1960. 387 pages. $6.95.

THE PRESIDENT MAKES A DECISION: *A Study of Dixon-Yates*. By Jason L. Finkle. Institute of Public Administration, Ann Arbor, Mich., 1960. 204 pages. $3.50.

FOOD FOR AMERICA'S FUTURE. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N.Y., 1960. 167 pages. $3.95.

VOTING RESEARCH AND THE BUSINESSMAN IN POLITICS. By Donald E. Stokes. Foundation for Research on Human Behavior, 1141 East Catherine Street, Ann Arbor, Mich., 1960. 39 pages. $3.00.

A CHECKLIST FOR THE ORGANIZATION, OPERATION AND EVALUATION OF A COMPANY LIBRARY. By Eva Lou Fisher. Special Libraries Association, 31 East Tenth Street, New York 3, N.Y., 1960. 60 pages. $2.00.

REPRODUCTION REFERENCE GUIDE. Edited by the Staff of ODR Reproductions Review. Offset Duplicator Review, Inc., 101 West 31 Street, New York 1, N.Y., 1960. 246 pages. $5.00.

SOCIAL STATUS AND LEADERSHIP: ***The Case of the School Executive.*** By Melvin Seeman. Bureau of Educational Research and Service, The Ohio State University, Columbus, Ohio, 1960. 156 pages. $3.00.

DECISIONS UNDER UNCERTAINTY: ***Drilling Decisions by Oil and Gas Operators.*** By C. Jackson Grayson, Jr. Harvard Business School, Division of Research, Soldiers Field, Boston 63, Mass., 1960. 402 pages. $6.00.

AN INTRODUCTION TO MATHEMATICS FOR BUSINESS ANALYSIS. By Robert C. Meier and Stephen H. Archer. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N.Y., 1960. 283 pages. $6.95.

THE VULGARIANS. By Robert Osborn. New York Graphic Society, Greenwich, Conn., 1960. 93 pages. $3.95.

U.S. FOREIGN POLICY IN A CHANGING WORLD. By Oliver D. Knauth. National Planning Association, 1606 New Hampshire Avenue, N.W., Washington, D. C., 1960. 76 pages. $1.50.

WHAT PUBLISHERS THINK ABOUT READER SERVICE CARDS. Erickson Enterprises, Inc., 78 Fifth Avenue, New York 11, N.Y., 1960. 49 pages. $1.00.

HOW TO MERCHANDISE FOR A PROFIT: ***Proceedings of the 23rd Annual Convention.*** Super Market Institute, Inc., Atlantic City, N.J., 1960. 99 pages. $5.00.

FINANCE

EFFECT OF ANTICIPATED INFLATION ON INVESTMENT ANALYSIS. By George Terborgh. Machinery and Allied Products Institute and Council for Technological Advancement, 1200 Eighteenth Street, N. W., Washington 6, D. C., 1960. 23 pages. $1.50.

THE PROMISE OF ECONOMIC GROWTH: ***Prospects, Costs, Conditions.*** (Report of the Committee on Economic Policy.) Chamber of Commerce of the United States, Washington, D. C., 1960. 55 pages. Single copies, $1.00.

SHIFTING TRENDS IN FEDERAL TAX POLICY CONCERNING FOREIGN SOURCE INCOME. Machinery and Allied Products Institute, 1200 Eighteenth Street, N.W., Washington 6, D. C. 32 pages. 50 cents.

1960 U.S. MASTER TAX GUIDE. Commerce Clearing House, Inc., 4025 West Peterson Avenue, Chicago 46, Ill., 1960. 448 pages. $3.00.

GUIDES FOR PROFIT PLANNING. By B. LaSalle Woelfel. Small Business Administration (Superintendent of Documents, U.S. Government Printing Office, Washington 25, D. C.), 1960. 52 pages. 25 cents.

SCREENING ALTERNATIVE INVESTMENT PROJECTS. By George Terborgh. Machinery and Allied Products Institute and Council for Technological Advancement, 1200 Eighteenth Street, N.W., Washington 6, D. C., 1960. 23 pages. $1.50.

THE CORPORATE INCOME TAX IN SWEDEN. By Martin Norr and Claes Sandels. Stockholms Enskilda Bank, Stockholm 16, Sweden, 1960. 60 pages. Gratis.

TIGHT MONEY AND RISING INTEREST RATES. Conference on Economic Progress, 1001 Connecticut Avenue, N.W., Washington 6, D. C., 1960. 77 pages. 50 cents.

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